

COUNTY OF SANTA CLARA

Single Audit Reports

Basic Financial Statements with
Federal Compliance Section

For the Fiscal Year Ended June 30, 2019



Certified
Public
Accountants

COUNTY OF SANTA CLARA
 Single Audit Reports
 For the Fiscal Year Ended June 30, 2019

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Financial Section

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Independent Auditor’s Report

The Board of Supervisors
County of Santa Clara
San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Santa Clara, California (the “County”), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the County’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the FIRST 5 Santa Clara County; the Santa Clara County Health Authority; the Santa Clara County Vector Control District; and the Santa Clara County Central Fire Protection District, the South Santa Clara County Fire District, and the Los Altos Hills County Fire District (collectively, “Fire Districts”), which collectively represent the following percentages of the assets, net position/fund balances, and revenues/additions of the following opinion units.

Opinion Unit	Assets	Net Position/ Fund Balances	Revenues/ Additions
Governmental activities	2.3%	17.7%	4.0%
Aggregate discretely presented component units	55.4%	33.3%	71.7%
Aggregate remaining fund information	1.6%	1.8%	0.9%

Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Santa Clara County Tobacco Securitization Corporation, the South Santa Clara County Fire District, and Santa Clara County Health Authority were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the financial statements, at June 30, 2019, the County's governmental activities, business-type activities, and the Santa Clara Valley Medical Center Enterprise Fund have deficit net positions of \$288.2 million, \$1.3 billion, and \$1.2 billion, respectively. Our opinions are not modified with respect to these matters.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. The County expects this outbreak to impact the County and its result of activities. The County is not able to predict the duration or magnitude of the adverse results of the outbreak and its effects on the County or results of activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis; the schedule of changes in net pension liability and related ratios; the schedule of the cost sharing plans' proportionate share of the net pension liability; the schedule of pension plans contributions; the schedule of changes in net OPEB liability and related ratios; the schedule of OPEB plans contributions; and the budgetary comparison schedule – General Fund – budgetary basis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



Walnut Creek, California

December 19, 2019, except for our report on the schedule of expenditures of federal awards, Note 17 Subsequent Events, and emphasis of matters paragraph on impacts of COVID-19, as to which the date is July 21, 2020

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COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

As management of the County of Santa Clara (the County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year which ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i to x of this report.

FINANCIAL HIGHLIGHTS

The liabilities and deferred inflows of resources of the County exceeded its assets and deferred outflows of resources by \$1.54 billion (*net position*) at June 30, 2019. Of this balance, \$1.22 billion represents the County's net investment in capital assets, \$832.0 million represents restricted net position for the County's ongoing obligations related to programs with external restrictions, and unrestricted net position is negative \$3.59 billion primarily due to recording of net pension liability of \$4.09 billion and net other postemployment benefits (OPEB) liability of \$1.29 billion (See further detail in Table 1 on page 8).

The County's total net position increased by \$223.3 million from the previous fiscal year. The change represents increases in net investment in capital asset of \$44.7 million and restricted net position of \$182.4 million, and decrease in unrestricted net position of \$3.8 million. (See further detail in Table 1 on page 8).

At June 30, 2019, total fund balances for the County's governmental funds amounted to \$2.33 billion, an increase of \$381.2 million or 19.5 percent from prior year. Approximately 56.3 percent of the combined fund balances (committed, assigned and unassigned), \$1.31 billion, is available to meet the County's current and future needs. This includes an unassigned fund balance for the General Fund of \$641.0 million, 22.7 percent of total General Fund expenditures.

The County's investment in capital assets increased by \$437.1 million or 15.9 percent. (See further detail in Table 5 on page 22).

The County's total long-term debt increased by \$370.7 million or 15.9 percent during the current fiscal year mainly due to the issuance of 2018 Series A Lease Revenue Bonds of \$164.4 million and 2019 Series A and A-Taxable Lease Revenue bonds of \$277.1 million to finance acquisitions of County facilities, offset by scheduled debt service payments. (See further detail in Table 6 on page 23).

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis are 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.

Government-wide 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, deferred outflows of resources, 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.

COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

The *statement of activities* presents information showing how 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, revenues and expenses are reported in the government-wide statements for some items that will result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

The government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation and culture. The business-type activities of the County include healthcare operations (three hospitals including Santa Clara Valley Medical Center at Bascom, O'Connor Hospital, and Saint Louise Regional Hospital, and a health plan – Valley Health Plan), airport operations (2 airports - Reid Hillview and South County), and a sanitation district (County Sanitation District No. 2-3 of Santa Clara County).

Component units are included in the basic financial statements and consist of legally separate entities for which the County is financially accountable. Because of the governing board relationship and the exclusivity of County services, the financial operations of some component units are blended in the County's basic financial statements. These component units are the Santa Clara County Central Fire Protection District, South Santa Clara County Fire District, Los Altos Hills County Fire District, Santa Clara County Library, Santa Clara County Vector Control District, County Sanitation District No. 2-3 of Santa Clara County, Santa Clara County Financing Authority, Santa Clara County Tobacco Securitization Corporation and the Silicon Valley Tobacco Securitization Authority. The Housing Authority of Santa Clara County, Santa Clara County Health Authority, and FIRST 5 Santa Clara County are reported separately as discrete component units of the County.

The government-wide financial statements can be found on pages 25 – 27 of this report.

Fund Financial Statements

A *fund* is a grouping 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 finance-related legal compliance. All of the funds of the County can be divided into three categories: *governmental funds*, *proprietary funds*, and *fiduciary funds*.

Governmental 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 the 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, the reader 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*.

COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

The County maintains 28 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 and the General Capital Improvement Fund. Data from other governmental funds is combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements and schedules* elsewhere in this report.

The governmental funds financial statements can be found on pages 28 – 31 of this report.

Proprietary funds

The County maintains two kinds 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 three hospitals, one health plan (Valley Health Plan), two airports (Reid Hillview and South County), and one sanitation district (County Sanitation District No.2-3 of Santa Clara County). *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its activities for information services, fleet management, insurance, printing, unemployment insurance, workers' compensation, retiree healthcare, and pension obligation. The internal service funds have been allocated between the governmental activities and business-type activities based on the percentage of use of the internal service funds in these activities.

Proprietary fund statements provide the same type of information as the business-type activities column in the government-wide financial statements, but with more detail. The proprietary fund financial statements provide separate information for the SCVMC and Valley Health Plan, which are considered major funds. The financial statements of the nonmajor enterprise funds (Airports and Sanitation District) are combined into a single aggregated presentation. Similarly, the County's internal service funds are combined into a single aggregated presentation in the proprietary funds financial statements. Individual fund data for the enterprise funds and the internal service funds is provided in the form of *combining statements* section of this report.

The proprietary funds financial statements can be found on pages 32 – 35 of this report.

Fiduciary funds

The *Fiduciary Funds* are used to account for resources held for the benefit of parties outside the County. 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 fiduciary funds financial statements can be found on pages 36 – 37 of this report.

Notes to the Basic Financial Statements

The 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. The notes can be found on pages 39 – 115 of this report.

Required Supplementary Information

The required supplementary information (RSI) is presented with additional information related to County's defined benefit pension plans and other postemployment benefits (OPEB) plans to its employees, and the General Fund's budgetary comparison schedule. The County adopts an annual appropriated budget for its General Fund, as well as other funds. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget. RSI can be found on pages 117 – 142 of this report.

COUNTY OF SANTA CLARA

Management’s Discussion and Analysis
Required Supplementary Information – Unaudited

Combining Statements and Schedules

The combining and individual fund statements and schedules referred to earlier provide information for discretely presented component units, non-major governmental funds, non-major enterprise funds, internal service funds, and certain fiduciary funds which are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 143 – 209 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The County’s liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources by \$1.54 billion (*net position*) at June 30, 2019. As stated earlier, the County’s negative balance in net position was due to recording of net pension liability and a net OPEB liability on the accrual basis financial statements as required by GASB Statements No. 68 and No. 75, respectively. When applicable, prior year numbers have been reclassified to make them comparable to the current year.

Table 1—Net Position (in thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2018	2019	2018	2019	2018	2019	Dollar Change	Percent Change
Assets								
Current and other assets	\$ 3,269,846	\$ 3,839,619	\$ 833,071	\$ 803,599	\$ 4,102,917	\$ 4,643,218	\$ 540,301	13.2%
Capital assets	2,638,691	3,019,973	117,370	173,145	2,756,061	3,193,118	437,057	15.9%
Total assets	5,908,537	6,859,592	950,441	976,744	6,858,978	7,836,336	977,358	14.2%
Deferred outflows of resources	895,182	763,826	415,063	346,813	1,310,245	1,110,639	(199,606)	(15.2%)
Liabilities								
Current and other liabilities	804,821	954,306	579,085	619,430	1,383,906	1,573,736	189,830	13.7%
Long-term liabilities	2,654,167	3,056,451	141,688	137,966	2,795,855	3,194,417	398,562	14.3%
Net pension liability	2,796,555	2,793,972	1,332,971	1,298,606	4,129,526	4,092,578	(36,948)	(0.9%)
Net OPEB liability	861,479	868,245	452,596	420,177	1,314,075	1,288,422	(25,653)	(2.0%)
Noncurrent derivative instrument liabilities	11,330	15,642	-	-	11,330	15,642	4,312	38.1%
Total liabilities	7,128,352	7,688,616	2,506,340	2,476,179	9,634,692	10,164,795	530,103	5.5%
Deferred inflows of resources	205,848	222,985	94,830	102,037	300,678	325,022	24,344	8.1%
Net position:								
Net investment in capital assets	1,097,475	1,086,712	75,101	130,541	1,172,576	1,217,253	44,677	3.8%
Restricted	649,654	832,042	-	-	649,654	832,042	182,388	28.1%
Unrestricted	(2,277,610)	(2,206,937)	(1,310,767)	(1,385,200)	(3,588,377)	(3,592,137)	(3,760)	0.1%
Total net position	\$ (530,481)	\$ (288,183)	\$ (1,235,666)	\$ (1,254,659)	\$ (1,766,147)	\$ (1,542,842)	\$ 223,305	(12.6%)

Assets and Deferred Outflows of Resources

The County’s total assets and deferred outflows of resources increased by \$777.8 million or 9.5 percent. The increases occurred in the following areas:

Governmental activities. Total assets and deferred outflows of resources for the governmental activities increased significantly by \$819.7 million or 12.0 percent, primarily due to:

- Total restricted and unrestricted cash and investments increased by \$344.5 million or 12.9 percent largely due to increases of \$74.0 million from property tax revenues, \$23.4 million property sales proceeds from redevelopment agencies, \$19.6 million in property tax in-lieu of vehicle license fees, and \$69.4 million from excess in the Educational Revenue Augmentation Fund (ERAF) apportionment. The issuance of the 2018 Series A Lease Revenue Bonds added \$106.0 million in cash balance. Also, the fair market value of the County’s investments increased by \$47.1 million compared with prior fiscal year.

COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

- Internal balances increased by \$141.2 million mainly due to a short-term borrowing to SCVMC for working capital needs because of delay in MediCal expense reimbursements.
- Due from other governmental agencies increased by \$53.8 million mainly due to the property sales proceeds from the City of Santa Clara Redevelopment Agency not received as of current year-end.
- Other receivable increased by \$27.3 million mainly due to increases in loan receivable by \$43.1 million as more loans were granted to developers to build affordable housing for low income populations throughout the County.
- Capital assets increased by \$381.3 million or 14.4 percent. Depreciable capital assets increased by \$207.9 million and nondepreciable capital assets increased by \$173.4 million. Changes in capital assets are discussed in the Capital Assets section on page 22 and Note 6 on page 65.

Deferred outflows of resources decreased by \$131.4 million or 14.7 percent due to decreases of pension related items of \$126.3 million. Additional information can be found in Note 11 on page 91 of this report.

Business-type activities. Total assets and deferred outflows of resources for the business-type activities decreased by \$41.9 million or 3.1 percent. The decrease consisted of a decline of \$228.7 million in unrestricted cash and investment due to delay in reimbursements for MediCal expenses. Internal balances due to the governmental activities increased by \$141.2 million mainly due to the short-term borrowing by SCVMC for working capital needs. Deferred outflows of resources was lower than prior year by \$68.3 million due to decreases of pension related items of \$60.4 million.

The decreases above were offset by \$134.7 million increase in receivable due to the growth in the number of patient visits and stays. In addition, due from other governmental agencies increased by \$200.3 million mainly because of the timing difference of collection for the Enhanced Payment Program and Quality Incentive Program. Also, inventory increased by \$8.9 million mainly resulted from the purchasing of the new healthcare facilities.

The decreases were also offset by an increase in capital assets of \$55.8 million mainly resulted from the acquisition of land and buildings at Silver Creek by Valley Health Plan. Changes in capital assets are discussed in the Capital Assets section on page 21 and Note 6 on page 65.

Liabilities and Deferred Inflows of Resources

The County's total liabilities and deferred inflows of resources increased by \$554.4 million, or 5.6 percent due to the following:

Governmental activities. Total liabilities and deferred inflows of resources for the governmental activities increased by \$577.4 billion or 7.9 percent, mainly comprised of the following:

- Increase in due to other governmental agencies by \$76.1 million mainly for establishing additional audit reserves for the possibility of returning funds to the State for Short Doyle Medi-Cal funds received.
- Unearned revenue increased by \$35.7 million mainly due to the receipt of grants funds in advance in the amount of \$19.3 million.

COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

- Long-term liabilities increased by \$402.3 million. Changes in long term liabilities are discussed further in the Long-Term Debt section on page 23 and Note 8 on page 70.
- Deferred inflows of resources increased by \$17.1 million mainly due to increases of pension related items of \$19.5 million. Additional information can be found in Note 11 on page 91 of this report.

Business-type activities. Total liabilities and deferred inflows of resources for business-type activities decreased by \$23.0 million or 0.9 percent. This included:

- Decrease of \$74.2 million in due to other governmental agencies because of the decrease of disproportionate share hospital (DSH) reserve and the decreases net pension and OPEB liabilities of \$34.4 million and \$32.4 million, respectively.
- The decreases above were offset by an increase of liabilities balances as follows:
 - Increase of \$48.7 million in current liabilities due to \$23.0 million account payables from the two newly acquired hospitals and \$25.7 million medical service charges for Valley Health Plan.
 - Increase of \$35.6 million in accrued liabilities mainly due to \$15.0 million increase in reserve for Valley Health Plan's health insurance risk pool.
 - Due to third-parties increased by \$17.8 million resulted from increasing the reserves for Federally Qualified Health Center for a change in the scope of services.
 - Deferred inflows of resources increased by \$7.2 million mainly due to an increase in pension related items of \$13.8 million. Additional information can be found in Note 11 on page 91 of this report.

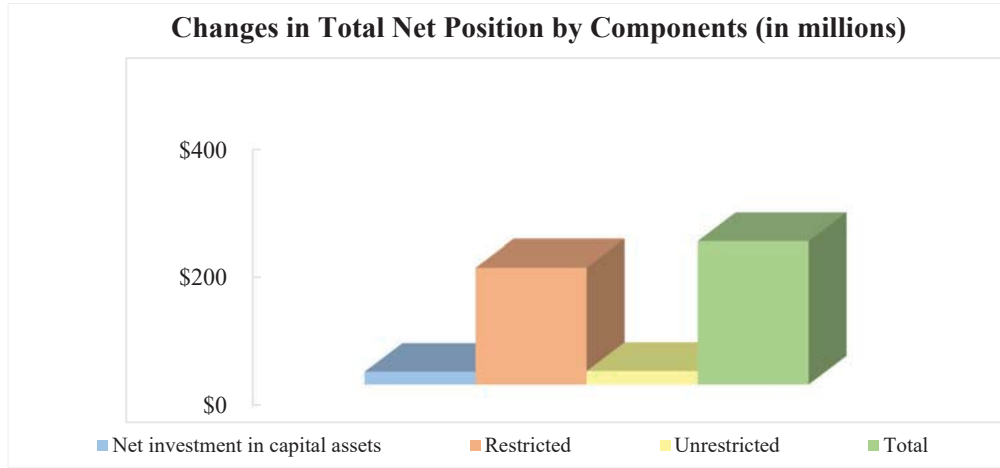
Net Position

The County's unrestricted net position of negative \$3.59 billion was due to recording a net pension liability and net OPEB liability on the government-wide financial statement as required by GASB Statements No. 68 and No. 75, respectively. A large portion of the County's net position of \$1.22 billion reflects its investment in capital assets (e.g., land, buildings and improvements, infrastructure, and equipment and vehicles) net of accumulated depreciation, less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to residents; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining \$832.0 million of the County's net position represents resources that are subject to external restrictions on how they may be used.

At the end of the fiscal year, the County reported positive balances in both net investment in capital assets and restricted categories of net position for its governmental activities and for its business-type activities. The unrestricted net position resulted in negative balances of \$2.21 billion and \$1.39 billion of its governmental activities and business-type activities, respectively.

COUNTY OF SANTA CLARA

Management’s Discussion and Analysis
Required Supplementary Information – Unaudited



Governmental activities

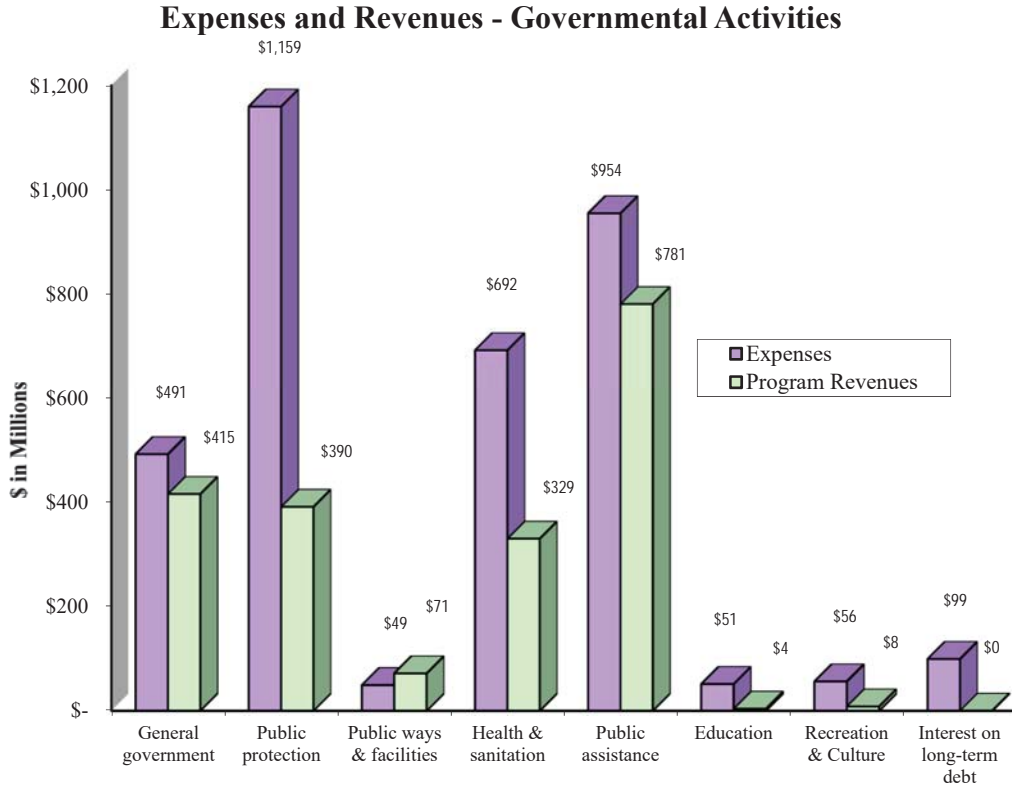
Governmental activities increased the County’s net position by \$242.3 million due to an excess of revenues over expenses by \$349.6 million. Furthermore, net transfers of \$32.1 million were made to the business-type activities primarily for providing operating support to SCVMC. In addition, special item of \$75.2 million was incurred for the acquisition of the healthcare facilities during the year.

As an arm of the state government, the County provides various mandated services, such as public assistance, public health, and mental health. Revenues directly generated by, or attributable to, a specific governmental function are called program revenues. These include charges for services and restrictive (program specific) grants and contributions, both operating and capital.

COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

The following chart shows the County's program revenues and expenses for the year. Not included in this chart are the general revenues: taxes (property, business, and sales), unrestricted grants, investment income, gain on sale of capital assets, and other revenue. These general revenues are not shown by program but are available to support the program activities countywide.



COUNTY OF SANTA CLARA

Management’s Discussion and Analysis
Required Supplementary Information – Unaudited

Changes in the County’s net position from its governmental activities are explained in the context of changes in revenues and expenses:

Table 2—The Change in Net Position (in thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2018	2019	2018	2019	2018	2019	Dollar Change	Percent Change
Revenues:								
Program revenues:								
Charges for services	\$ 273,777	\$ 279,679	\$ 1,907,837	\$ 2,226,030	\$ 2,181,614	\$ 2,505,709	\$ 324,095	14.9%
Operating grants and contributions	1,631,087	1,703,779	172,211	160,650	1,803,298	1,864,429	61,131	3.4%
Capital grants and contributions	14,040	14,399	-	8,033	14,040	22,432	8,392	59.8%
General revenues:								
Property taxes	1,401,583	1,608,669	-	-	1,401,583	1,608,669	207,086	14.8%
Sales and use taxes	56,476	58,589	8,880	-	65,356	58,589	(6,767)	(10.4%)
Other taxes	20,198	14,117	-	-	20,198	14,117	(6,081)	(30.1%)
Unrestricted grants & contributions	62,667	54,352	-	-	62,667	54,352	(8,315)	(13.3%)
Unrestricted investment income	25,120	91,398	3,570	8,592	28,690	99,990	71,300	248.5%
Other revenue	78,577	76,008	-	-	78,577	76,008	(2,569)	(3.3%)
Total revenues	3,563,525	3,900,990	2,092,498	2,403,305	5,656,023	6,304,295	648,272	11.5%
Program expenses:								
General government	439,062	491,367	-	-	439,062	491,367	52,305	11.9%
Public protection	1,121,803	1,159,237	-	-	1,121,803	1,159,237	37,434	3.3%
Public ways and facilities	62,324	48,971	-	-	62,324	48,971	(13,353)	(21.4%)
Health and sanitation	630,753	692,338	-	-	630,753	692,338	61,585	9.8%
Public assistance	886,734	953,943	-	-	886,734	953,943	67,209	7.6%
Education	49,133	51,202	-	-	49,133	51,202	2,069	4.2%
Recreation and culture	53,051	55,730	-	-	53,051	55,730	2,679	5.0%
Interest on long-term liabilities	89,444	98,565	-	-	89,444	98,565	9,121	10.2%
Healthcare	-	-	2,219,479	2,464,639	2,219,479	2,464,639	245,160	11.0%
Airport	-	-	2,782	2,544	2,782	2,544	(238)	(8.6%)
Sanitation	-	-	2,785	2,724	2,785	2,724	(61)	(2.2%)
Total expenses	3,332,304	3,551,353	2,225,046	2,469,907	5,557,350	6,021,260	463,910	8.3%
Excess (deficiency) before transfers and special items	231,221	349,637	(132,548)	(66,602)	98,673	283,035	184,362	186.8%
Transfers	(132,790)	(32,092)	132,790	32,092	-	-	-	n/a
Special items - acquisition of healthcare facilities	-	(75,247)	-	15,517	-	(59,730)	(59,730)	n/a
Change in net position	98,431	242,298	242	(18,993)	98,673	223,305	124,632	126.3%
Net position, beginning of year	(628,912)	(530,481)	(1,235,908)	(1,235,666)	(1,864,820)	(1,766,147)	98,673	(5.3%)
Change in accounting principle	-	-	-	-	-	-	-	n/a
Net position, beginning of year, as restated	(628,912)	(530,481)	(1,235,908)	(1,235,666)	(1,864,820)	(1,766,147)	98,673	
Net position, end of year	\$ (530,481)	\$ (288,183)	\$ (1,235,666)	\$ (1,254,659)	\$ (1,766,147)	\$ (1,542,842)	\$ 223,305	(12.6%)

Revenues

The total revenues for the County’s governmental activities increased by \$337.5 million or 9.5 percent to \$3.9 billion. Program revenues increased by \$79.0 million or 4.1 percent, while general revenues increased by \$258.5 million or 15.7 percent. Over the past three years, the County’s program revenues from its governmental activities have contributed about 58.4 percent of the cost of running those governmental programs. General revenues support the programs by covering the remaining 41.6 percent of costs.

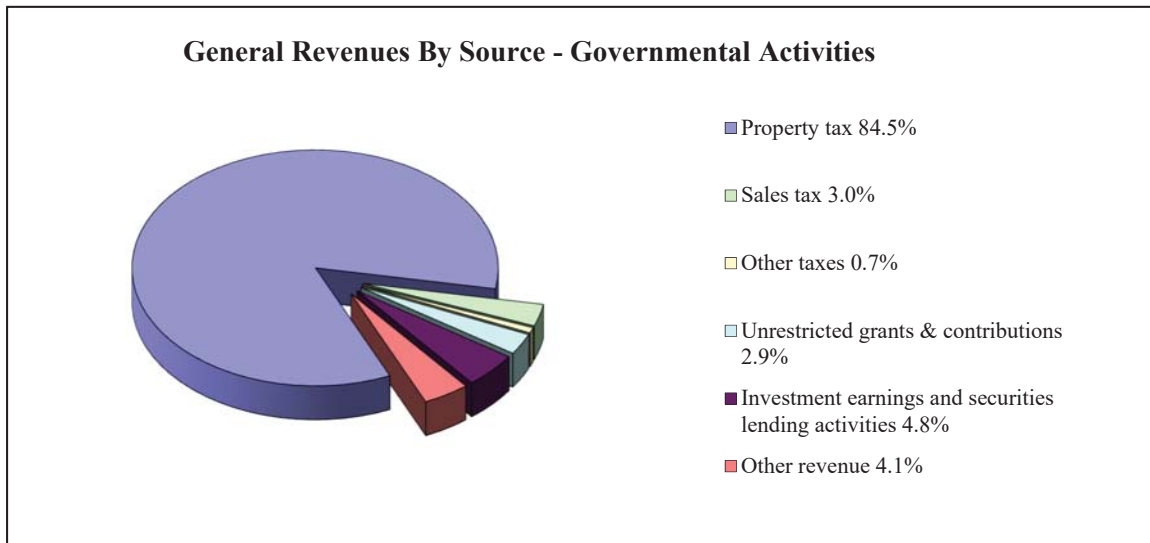
The largest source of program revenues for the County’s governmental activities is federal and state grants and contributions, both operating and capital. These revenues amount to 86.0 percent of the governmental activities’ program revenues and 44.0 percent of its total revenues. For the year, operating grants increased by \$72.7 million and charge for service increased by \$5.9 million. Such increases are largely due to increased funding from the State for mental health programs, and higher federal and state reimbursement for public assistance programs.

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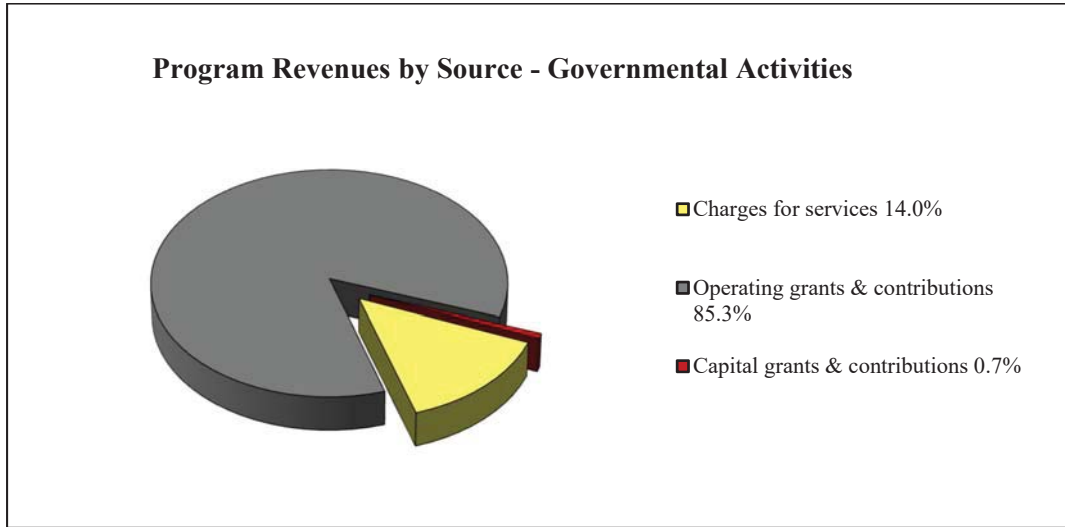
The County's governmental activities' general revenues increased by \$258.5 million or 15.7 percent. General revenues are not directly related to governmental programs and include: taxes (property, business, and sales), unrestricted grants, investment income, and other revenues. General revenues support government programs by defraying costs, which programs cannot cover from their own revenues. Tax revenues are the County's second largest revenue source - grants and contributions being the largest. The County earned \$1.68 billion in tax revenues (property tax, sales and use tax, and other taxes) for the current year. This is approximately 88.3 percent of the general revenues and 43.1 percent of the total revenues. These general revenues provide the Board of Supervisors (the Board) with most of its discretionary spending ability. The increase in general revenues is mainly due to the following:

- Property tax revenues increased by \$207.1 million which is mainly due to a 7.5 percent growth in total property assessed values. This increase included the growth of \$74.0 million in secured and unsecured property taxes, \$19.6 million in property tax in-lieu of motor vehicle license fees under SB1096, and \$44.1 million in property sales proceeds from redevelopment agencies. In addition, an excess in the Educational Revenue Augmentation Funds apportionment contributed to an increase in revenue of \$69.4 million.
- Investment income increased by \$66.3 million. Higher average daily cash balances as well as higher interest rate contributed to an increase in the investment earnings of the County's commingled pool by \$19.2 million. Furthermore, the fair market value of the County's investments grew by \$47.1 million compared with prior fiscal year.



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Expenses and Transfers

Expenses for governmental activities increased by \$219.0 million or 6.6 percent. All categories experienced higher costs than in the prior year except for public ways and facilities. The primary reasons for the changes are explained below.

General Government increased by \$52.3 million or 11.9 percent due to the following:

- Salaries and benefits increased by \$22.0 million primarily due to 3.0 percent countywide salary increase, 7.2 percent increase in staffing, as well as higher employee retirement contribution and health insurance premium.
- Depreciation increased by \$24.0 million due to the expenses incurred for the Sobrato Pavilion Rehabilitation Center project and newly acquired healthcare buildings.
- Services and supplies and intra-County charges increased by \$51.5 million mainly due to increase in contract services, software maintenance, IT equipment refreshment and system upgrade, and facilities maintenance.
- The above increases were offset by increase in various intra-County expenditure reimbursements including \$47.2 million in cost plan allocation charges. Such an increase was mainly due to additional salaries and benefits incurred pursuant to various bargaining units’ MOUs negotiation, along with a growth in the number of staff as new positions were added and vacant positions were filled during the year. Furthermore, new information technology (IT) projects deploying technology and improving service efficiency cost for various departments also contributed to the rise in cost plan allocation charges.

Public Protection increased by \$37.4 million or 3.3 percent. The changes are discussed below.

- Increase of \$19.8 million in salaries and benefits resulting from a 6.8 percent increase in staffing and 3.0 percent countywide salary increase. Also, there was a rise in health insurance costs and employee retirement pension contributions.
- Intra-county charges increased by \$7.2 million mainly due to more IT support and facility maintenance occurred during the year.

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- Increase in services and supplies by \$7.4 million mainly occurred in the Probation Department and Department of Correction as follows.
 - Expenses for Department of Correction rose by \$4.6 million mainly due to a one-time funded program paying attorney's' fees for class action lawsuits relating to the County jails.
 - Probation Department had an overall increase of \$2.0 million in expenses resulted from an increase in contract services with the Center for Employment Opportunity in providing employment services for probation adult clients.

Public Ways and Facilities were lower than last year by \$13.4 million or 21.4 percent because of the completion and winding down for some of the roads and bridges projects.

Health and Sanitation increased by \$61.6 million or 9.8 percent primarily due to the following:

- Increase of \$11.2 million in salaries and benefits resulting from a 13.1 percent increase in staffing and 3.0 percent countywide salary increase. The growth in the employee retirement pension contribution and health insurance premium also caused the increase.
- Behavioral Health Services Department had an increase of \$46.9 million in expenses. This was primarily due to a large increase in contractual and professional services with the community-based healthcare providers.

Public Assistance increased by \$67.2 million or 7.6 percent due to the following:

- Increase of \$1.7 million in salaries and benefits resulting from a 2.6 percent increase in staffing and 3.0 percent countywide salary increase. Employee retirement plan contribution was also higher than prior year.
- The Office of Supportive Housing experienced a \$4.6 million increase for contract services due to an expansion in housing and rental assistance programs for the low-income populations throughout the County.
- The costs for medical insurance benefits increased by \$14.9 million resulted from the increase in the number of In-Home Supportive Service independent providers.
- Internal service charges increased by \$26.8 million primarily due to the reorganization and consolidation of Social Services Agency's IT team into the County's IT Department.

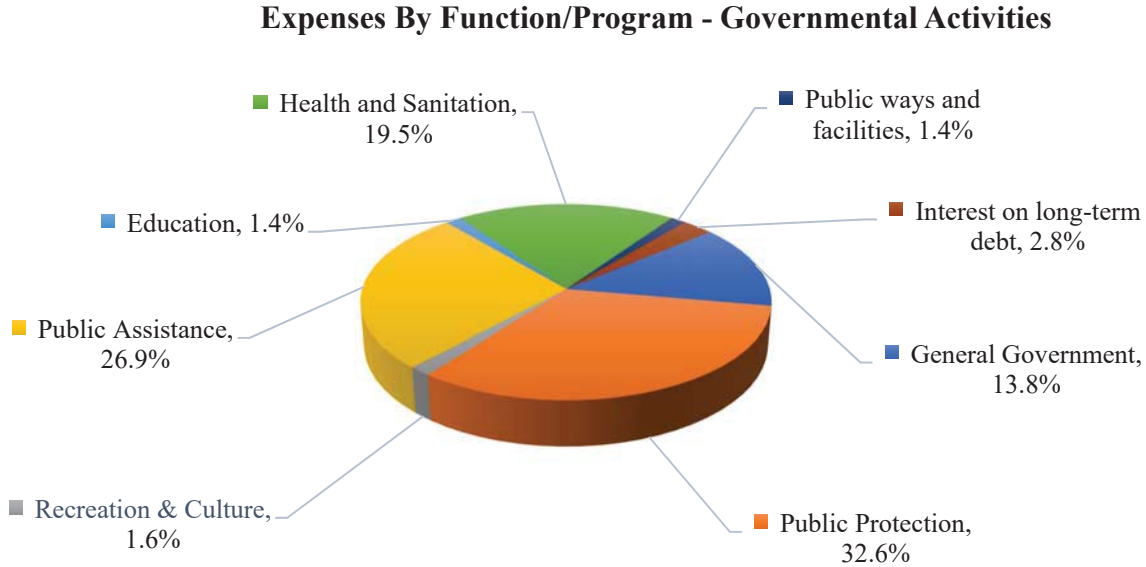
Interest on long-term liabilities increased by \$9.1 million resulting from the cost of insurance incurred and increase in long-term liabilities upon the issuance of 2018 Series A Lease Revenue Bonds of \$164.4 million and 2019 Series A and A-Taxable Lease Revenue bonds of \$277.1 million to finance acquisitions of County facilities.

Net transfer out decreased by \$100.7 million or 75.8 percent primarily due to a decrease of \$69.7 million in General Fund subsidy to SCVMC.

The governmental activities recorded a special item for the acquisition of healthcare facilities. The purchase of the acquisition is to ensure the continued medical and emergency services to residents of Gilroy, Morgan Hill, San Martin, and south San Jose, the County acquired three healthcare facilities that included O'Connor Hospital, Saint Louise Regional Hospital, and De Paul Health Center.

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The following chart shows the County's expenses by functional category for the governmental activities.



Business-type activities

The business-type activities decreased the County's net position by \$19.0 million. Expenses exceeded revenue by \$66.6 million. Net transfer in decreased by \$100.7 million or 75.8 percent primarily due to a decrease of \$69.7 million in General Fund subsidy to SCVMC. The special item for the acquisition of healthcare facilities represents the transfer in of current and capital assets from the governmental activities.

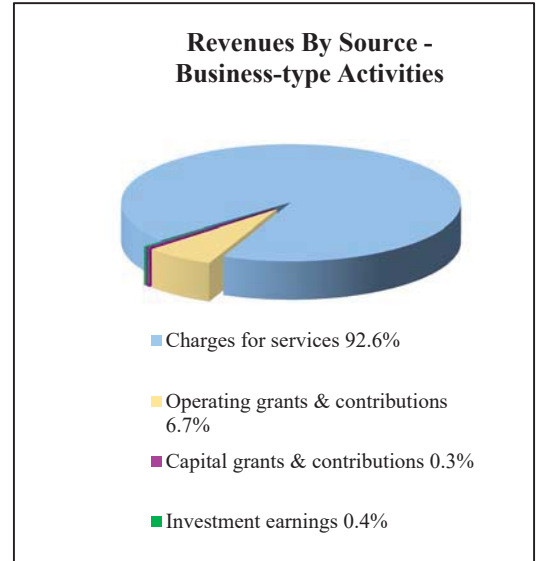
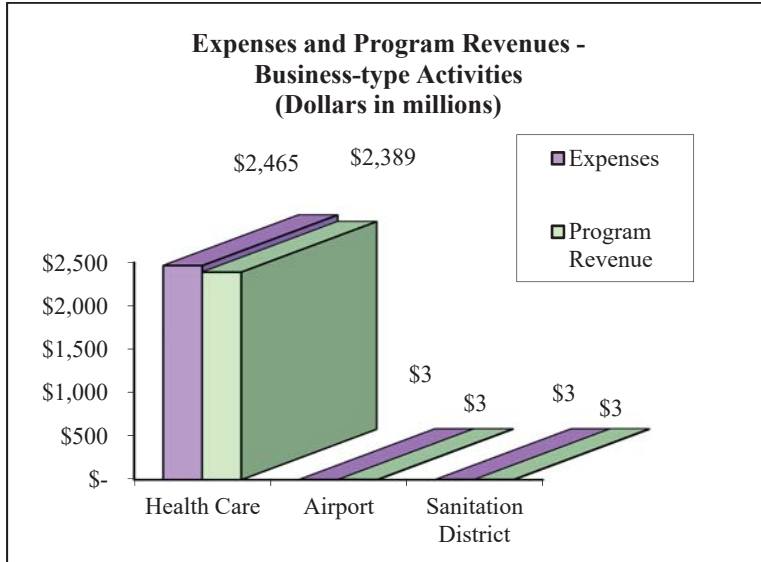
The largest of the County's business-type activities, healthcare operations, had \$2.46 billion in expenses and \$2.39 billion in program revenues for the year. The healthcare operations program revenue represents 99.8 percent of the program revenues of all business-type activities. The reasons for these revenues and expenses changes are discussed in the enterprise funds section.

The other enterprise operations - airports and sanitation district - are very small in size and did not change much in the year.

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The first chart below shows expenses and revenues by each business activity, while the second chart shows revenues by source for the business activities.



FINANCIAL ANALYSIS OF THE COUNTY’S FUNDS

The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. When applicable, prior year numbers have been reclassified to make them comparable to the current year.

Governmental funds

The general government’s functions are reported in the general, special revenue, debt service, and capital project funds. The focus of these *governmental funds* is to provide information on near-term inflows, outflows, and balances of *unrestricted resources*. Such information is useful in assessing the County’s financing resources. In particular, unassigned fund balance at the end of the fiscal year can serve as a useful measure of the County’s net resources available for spending.

On June 30, 2019, the County’s governmental funds reported total fund balances of \$2.33 billion, an increase of \$381.2 million or 19.5 percent from the prior year. Approximately 56.3 percent of the combined fund balance, \$1.31 billion, constitutes fund balance that is available to meet the County’s current and future needs (committed, assigned and unassigned). The remainder of the fund balance totaling \$1.02 billion is either in nonspendable form or restricted for specific spending. This includes \$30.5 million in items that are not expected to be converted to cash (for example: inventories, prepaid amounts, and advances to other funds) and \$988.7 million restricted for programs or other purposes.

For its governmental funds, the County’s total revenues for the current fiscal year were \$3.87 billion, an increase of \$336.4 million or 9.5 percent from the prior year. Total governmental fund expenditures increased by \$403.9 million, or 12.4 percent, to \$3.67 billion for the year. Primary reasons for these changes in revenues and expenditures for the governmental funds are explained in the framework of individual funds.

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The General Fund is the chief operating fund of the County. Its unassigned fund balance was \$641.0 million on June 30, 2019, while its total fund balance was \$1.04 billion, a \$224.8 million increase over the prior year. This was mainly due to an excess of revenues over expenditures of \$410.5 million for the fiscal year, which was offset by \$185.7 million in net transfers to other County funds and other financing sources. As a measure of the General Fund’s liquidity, it may be useful to compare both the unassigned fund balance and the total fund balance to total fund expenditures. The unassigned fund balance and the total fund balance represent 22.7 percent and 36.8 percent, respectively, of the total General Fund expenditures on June 30, 2019.

The nonspendable and restricted portions of the General Fund’s fund balance were \$29.9 million and \$200.9 million, respectively. The remaining fund balance constitutes the spendable portion, which was \$809.7 million. Of this amount, \$641.0 million was unassigned fund balance. The remaining portions of spendable fund balance included \$72.2 million of committed fund balance and \$96.5 million of assigned fund balance. The committed portion represents amounts set aside by the County’s highest level of decision-making authority, the Board of Supervisors, for specific purposes. The assigned amounts include items earmarked by County management and include litigation reserves, amounts encumbered for future purchases, and amounts to be used for future operations.

General Fund revenues and expenditures for the fiscal year were \$3.24 billion and \$2.83 billion, respectively. While its revenues increased by \$285.4 million or 9.7 percent for the year, its expenditures increased by \$100.3 million or 3.7 percent. The General Fund’s revenues by sources and expenditures by function as well as changes from the prior fiscal year are presented below:

Table 3—General Fund Revenue Classified by Source (in thousands)

Revenues by source	FY 2018		FY 2019		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
Taxes	\$ 1,154,702	39.1%	\$1,350,064	41.7%	\$ 195,362	16.9%
Licenses and permits	18,179	0.6%	17,155	0.5%	(1,024)	(5.6%)
Fines, forfeitures and penalties	47,453	1.6%	52,874	1.6%	5,421	11.4%
Interest and investment income	20,176	0.7%	70,571	2.2%	50,395	249.8%
Intergovernmental revenues	1,549,453	52.5%	1,579,189	48.8%	29,736	1.9%
Charges for services	120,623	4.1%	125,670	3.9%	5,047	4.2%
Other revenue	39,646	1.3%	40,076	1.3%	430	1.1%
Total	\$ 2,950,232	100.0%	\$ 3,235,599	100.0%	\$ 285,367	9.7%

Table 4—General Fund Expenditures by Function (in thousands)

Expenditures by function	FY 2018		FY 2019		Increase/(Decrease)	
	Amount	Percent	Amount	Percent	Amount	Percent
General government	\$ 252,134	9.3%	\$ 268,984	9.5%	\$ 16,850	6.7%
Public protection	899,397	33.0%	931,718	33.0%	32,321	3.6%
Public ways and facilities	1,089	0.0%	-	0.0%	(1,089)	(100.0)%
Health and sanitation	597,642	21.9%	658,100	23.3%	60,458	10.1%
Public assistance	896,192	32.9%	921,344	32.6%	25,152	2.8%
Capital outlay	22,120	0.8%	-	0.0%	(22,120)	(100.0)%
Debt service:						
Principal retirement	32,779	1.2%	20,990	0.7%	(11,789)	(36.0)%
Interest and fiscal charges	23,417	0.9%	23,918	0.8%	501	2.1%
Total	\$2,724,770	100.0%	\$2,825,054	99.9%	\$ 100,284	3.7%

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Our analysis of the County's governmental activities identified key reasons for changes in its revenues and expenditures. This helps explain significant changes in the General Fund because it is the chief operating fund of the County. The General Fund's revenues and expenditures respectively cover 83.5 percent and 77.0 percent of the County's total current year revenues and expenditures of all governmental funds. For this reason, we will briefly mention the points that were elaborated upon in our earlier discussion of the countywide revenues and expenses.

Tax revenues increased by \$195.4 million or 16.9 percent as compared to prior fiscal year. This was mainly due to a 7.5 percent increase in total property assessed values that resulted an increase of \$60.4 million in secured and unsecured property taxes. Other factors contributing to the increase in tax revenues included an increase of \$19.3 million in property tax in-lieu of vehicle license fees and \$2.1 million transaction and use tax from Measure A. In addition, an excess in the Educational Revenue Augmentation Funds apportionment contributed to an increase in revenue of \$69.4 million. The distribution of property sales proceeds from redevelopment agencies also increased by \$44.1 million.

Fines, forfeitures, and penalties came in higher by \$5.4 million or 11.4 percent due to higher penalties and costs collected from delinquent taxes transferred from the Tax Loss Reserve Fund to General Fund.

Interest and investment income increased by \$50.4 million or 249.8 percent due to higher interest rate, average daily cash balance, and impact of fair market value adjustments. The commingled pool's average quarterly earnings rate increased from 1.44 percent to 2.03 percent.

Intergovernmental revenues increased by \$29.7 million or 1.9%. Federal and State funding for public assistance and health administration related programs increased by \$40.0 million due to increases in demands for these services as well as higher costs to run these programs; public safety sales tax revenues increased by \$6.2 million; and revenue collected from SB90 mandated programs, homeland security, pre-disaster mitigation and other programs also increased by \$21.6 million. These increases were offset by the decline of \$16.9 million in pass-through payment from redevelopment agency as the past-due payments were received in prior fiscal year and the decline of \$21.2 million in 1991 State health realignment due to the redirection AB85 as the fund was redirected to social service programs.

Key reasons for changes in General Fund expenditures are explained in the earlier discussion on the countywide governmental programs and activities.

As of June 30, 2019, the General Capital Improvement Fund qualifies as a major fund of the County. This fund accounts for the general improvements to County facilities, including the reconstruction and expansion of major capital facilities owned or leased by the County. Its total fund balance was \$361.5 million on June 30, 2019, which was committed for various capital projects. During the year, it incurred capital outlay of \$285.5 million and a special item for the acquisition of healthcare facilities of \$294.3 million. It also received net total transfer in of \$583.1 million from the County's governmental funds for essential major maintenance needs, constructions projects, and for payment of the current year acquisitions of healthcare facilities.

Enterprise funds

The County's enterprise funds provide the same type of information found in the government-wide financial statements, but in more detail.

As of June 30, 2019, the County's net position in its enterprise funds was negative \$1.19 billion. The net investment in capital assets was \$130.5 million. The unrestricted net position was negative \$1.32 billion. The net position of the County's enterprise funds decreased by \$28.8 million for the year. Primary reasons for the change in net position are explained in the framework of individual enterprise funds.

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SCVMC is the largest enterprise fund and its revenues and expenses comprise 76.5 percent of the total operating revenues and 76.7 percent of the total operating expenses for all enterprise funds. Valley Health Plan is the second largest and its revenues and expenses comprise 23.3 percent of the total operating revenues and 23.1 percent of the total operating expenses for all enterprise funds. The other two enterprise funds- Airports and Sanitation District - are very small in comparison.

The change in net position for SCVMC was negative \$37.5 million in fiscal year 2019. Operating revenues increased by \$282.1 million or 18.3 percent and operating expenses increased by 132.9 million or 7.8 percent. The County acquisition of new healthcare facilities and their operations during the year were the most significant contributing factor for the changes in the current year's activities. The revenues increase came from (1) increases of \$137.8 million revenue from Enhanced Payment Program and Quality Incentive Program (2) \$53.0 million from pharmacy, and (3) due to growth in patient visits and days. Factors that contributed to the increase in operating expenses include: (1) payroll increase mainly due to the new hospitals activities, (2) pharmaceuticals increased by \$15.1 million which is commensurate to the rise in pharmacy revenue, (3) \$15.6 million of increase was due to outside medical services, (4) nursing registry increase of \$15.2 million was mainly from the new hospitals, and (5) \$22.2 million of increase were in contract services. Net capital contributions, transfers, and special item were \$25.3 million for the year. Included in the transfers were \$87.8 million transferred to internal services fund for the centralization of information services department and the subsidy received from General fund of \$54.0 million, a decrease of \$69.8 million when compared to the previous fiscal year.

The change in net position for Valley Health Plan was \$7.9 million in fiscal year 2019. Operating revenues increased by \$24.7 million or 4.7 percent and operating expenses increased by \$22.8 million or 4.3 percent. Both increases are due to continued rise in the membership enrollment with the overall average of 20.0 percent in commercial line of business, especially in Covered California segment that was 50.0 percent. The expenses were direct correlation with the revenue. The primary cost driver was medical expenses in commercial line of business.

There were no significant changes to the net position for the Airports and Sanitation District during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The County's final budget appropriations for 2019 were \$3.86 billion, which was \$190 million or 5.2 percent higher than the original budget adopted by the Board. Occasionally, unexpected events may cause the County to commit its one-time reserves or use ongoing resources to pay for those unplanned events. Differences between the original and final budgets represent supplemental appropriations approved by the Board for various new grants received by the County or to pay for increased service level that was not expected when the original budget was approved.

General Fund revenues and expenditures were less than the budgetary estimates for the year. Estimated revenues for the year exceeded actual revenues by \$43.4 million or 1.3 percent. The interfund transfers came in lower than estimates by \$397.2 million. Final budgetary appropriations exceeded actual expenditures by \$717.5 million or 18.6 percent for the year. These cost savings were mainly resulted from unspent appropriations of: a) \$60.1 million in salaries and benefits costs due to unfilled vacant positions b) \$325.4 million in services and supplies costs for government programs; c) \$10.5 million in capital outlay; d) \$22.1 million Interfund Transfer for hospital subsidy, renovations and technology support. e) \$229.8 million remaining in contingency reserves. The overall unspent appropriation discussed above was offset by the reimbursements from General Fund departments of \$15.6 million.

The General Fund budgetary comparison schedule starts on page 132 of this report.

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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As shown in Table 5 below, the County’s investment in capital assets (net of accumulated depreciation) as of June 30, 2019 was \$3.19 billion.

Table 5—Capital Assets (Net of depreciation, in thousands)

	Governmental Activities		Business-type Activities		Total		Dollar Change	Percent Change
	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019		
Land	\$ 297,969	\$ 418,736	\$ 3,411	\$ 28,189	\$ 301,380	\$ 446,925	\$ 145,545	48.3%
Construction in progress	344,965	397,550	29,848	34,386	374,813	431,936	57,123	15.2%
Infrastructure	226,962	249,080	-	-	226,962	249,080	22,118	9.7%
Buildings, easments & improvements	1,694,380	1,870,755	12,681	44,814	1,707,061	1,915,569	208,508	12.2%
Equipment, software, and vehicles	74,415	83,852	71,430	65,756	145,845	149,608	3,763	2.6%
Total	\$ 2,638,691	\$ 3,019,973	\$ 117,370	\$ 173,145	\$ 2,756,061	\$ 3,193,118	\$ 437,057	15.9%

The County’s net capital assets increased by \$437.1 million or 15.9 percent for the year. Net capital assets for the governmental activities increased significantly by \$381.3 million or 14.4 percent, while the business-type activities’ net capital assets increased by \$55.8 million or 47.5 percent. Changes in capital assets by activity type were as follows:

Governmental activities

The County’s capital assets for its governmental activities rose by \$381.3 million primarily due to:

- Land increased by \$120.8 million mainly due to the acquisitions of \$53.0 million of operation buildings (Champion), \$46.1 million of healthcare facilities and the remaining were purchases of land in Morgan Hill, Lundy and Parkmore.
- Buildings and improvements increased by \$176.4 million mainly due to the purchase of healthcare facilities and operation buildings of \$112.6 million.
- Construction in progress increased by \$52.6 million due to the new construction of Vietnamese American Service Center and the improvements of Tasman campus, as well as ongoing projects by Roads and Parks departments.
- Infrastructure increased by \$22.1 million due to the ongoing projects from Roads and Parks departments.
- Equipment, Vehicles and Software increased by 9.4 million mainly due to the replacement of various old equipment and the upgrades of the existing software.

Business-type activities

Net capital assets for business-type activities increased by \$55.8 million for the year. This increase mainly due to the acquisition of land and buildings at Silver Creek Business Park for Valley Health Plan.

Commitment of Resources for Construction Work in Progress

On June 30, 2019, the County had committed \$149.7 million and \$9.0 million for the governmental and business-type activities, respectively, for various uncompleted capital projects included in the construction in progress.

Additional information on the County’s capital assets can found in Note 6 on page 65 of this report.

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Long-term Debt

The County’s long-term outstanding debt as of June 30, 2019 was \$2.71 billion as shown in Table 6 below:

Table 6—Outstanding Debt (in thousands)

	Governmental Activities		Business-type Activities		Total		Dollar Change	Percent Change
	FY 2018	FY 2019	FY2018	FY 2019	FY2018	FY 2019		
Taxable pension funding bonds	\$ 418,448	\$ 415,771	\$ -	\$ -	\$ 418,448	\$ 415,771	\$ (2,677)	(0.6%)
General obligation bonds	1,082,629	1,014,382	-	-	1,082,629	1,014,382	(68,247)	(6.3%)
Lease revenue bonds	554,916	995,036	49,681	42,604	604,597	1,037,640	433,043	71.6%
Capital appreciation bonds	198,392	210,288	-	-	198,392	210,288	11,896	6.0%
New Clean Renewable Energy Bonds	30,739	28,464	-	-	30,739	28,464	(2,275)	(7.4%)
Capital lease obligations	1,794	787	-	-	1,794	787	(1,007)	(56.1%)
Total	\$ 2,286,918	\$ 2,664,728	\$ 49,681	\$ 42,604	\$ 2,336,599	\$ 2,707,332	\$ 370,733	15.9%

The County’s long-term debt increased by \$370.7 million mainly due to the issuance of 2018 Series A Lease Revenue Bonds of \$164.4 million and 2019 Series A and A-Taxable Lease Revenue bonds of \$277.1 million to finance acquisitions of County facilities, the issuance of \$55.1 million of 2018 Series A Refunding Lease Revenue Bonds, \$41.6 million premiums received from the bond issuances, and \$11.9 million addition in accreted interest for Tobacco Settlement Asset-Backed bonds. These additions were offset by \$72.6 million refunding of 2008 Series A Lease Revenue Bonds, scheduled debt repayments of \$24.1 million for lease revenue bonds, \$65.2 million for General Obligation bonds, \$2.3 million for New Clean Renewable Energy Bonds, and amortization of bonds premium of \$11.4 million.

Additional information on the County’s long-term debt can be found in Note 8 on page 70 of this report.

For its outstanding debt, Standard & Poor’s (S&P) has maintained an AA+ rating on the County’s existing lease revenue bonds. In addition, S&P has maintained the County’s general obligation bonds and pension obligation bonds rating of AAA. Both ratings are the highest possible long-term ratings.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The County has continued to experience growth in both revenues and expenditures. The County’s budget for the upcoming year continues this trend with a projected 8.0 percent increase in revenue and a 7.6 percent increase in net expenditures. Budgeted expenditures exceed budgeted revenue by \$352.8 million in fiscal year 2020. The deficit is expected to be covered by available fiscal year 2019 fund balance.

The following economic factors were considered in the County’s fiscal year 2020 budget:

- The County’s unemployment rate continued to decline. The rate for June 2019 was 2.6 percent, a decrease of 0.3 percent, down from 2.9 percent in June 2018. In comparison, the statewide unemployment rate for June 2019 was 4.2 percent, a decrease of 0.3 percent from the June 2018 rate of 4.5 percent.
- The real per capita income (a measure of wealth creation) as of March 2018 (most current available data) increased from \$88,920 to \$98,032. On the national level, the real per capita income for metropolitan areas was \$53,617, an increase of \$2,542 from the prior year.
- Housing prices decreased for the first time after seven straight years of growth. This was demonstrated by the median price for single family homes, which declined to \$1.3 million, a 5.3 percent decrease from one year prior.

COUNTY OF SANTA CLARA

Management's Discussion and Analysis Required Supplementary Information – Unaudited

- Venture capital investment, a leading indicator of innovation and long-term development, increased significantly by \$35.2 billion, or 40.3 percent, in fiscal year 2019 compared to fiscal year 2018. Silicon Valley and San Francisco regions, taken together, accounted for 53.3 percent of the national total and 87.5 percent of the State's total. Sectors which attracted the largest venture capital funding in fiscal year 2019 included internet, healthcare, consumer products & services, and mobile and telecommunications.
- Office, research and development, and warehouse space occupancy are leading indicators of economic activity. The vacancy rate for office space decreased to 9.1 percent in June 2019, down from 10.5 percent in June 2018. The vacancy rate for research and development space decreased to 7.6 percent in June 2019 versus 9.0 percent in the prior year. The vacancy rate for warehouse space increased to 3.8 percent in June 2019 compared to 2.9 percent in June 2018.
- Assessed value for real property, which increased by 7.5 percent, contributed to an increase of \$47.7 million in current secured property tax revenue. The current unsecured tax revenue increased by approximately 19.5 percent, or \$9.6 million, from the prior year. The property tax delinquencies on secured property remained steady at 0.4 percent in fiscal year 2019. Transfer tax revenue decreased slightly by 2.7 percent or approximately \$831 thousand. Supplemental tax revenues increased by 18.4 percent or \$4.0 million. The fiscal year 2020 budget assumes a 7.4 percent increase in property assessed value, which equates to an increase of \$76.0 million in property tax revenue.

The fiscal year 2020 countywide expenditure budget of almost \$8.2 billion included a 15.6 percent increase compared to the prior year's budget. The County's budget focuses on the careful implementation of previous initiatives, with fastidious strategic and tactical planning with recommendations to further implement the "Ten Year Plan" approved by the Board in 2009.

The fiscal year 2020 budget sets aside \$163.6 million in contingency reserves. Operating reserve designations and the strategic reserve designations are part of the financial resources that are available to address unanticipated revenue shortfalls or unforeseen expenditures. These designations provide a primary defense against deficit spending and help maintain liquidity when budgeted draw-downs become necessary.

Basic Financial Statements

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COUNTY OF SANTA CLARA

Statement of Net Position

June 30, 2019

(In thousands)

	Primary Government			Component Units
	Governmental Activities	Business- type Activities	Total	
Assets:				
Cash and investments	\$ 2,865,053	\$ 213,174	\$ 3,078,227	\$ 463,271
Receivables, net of allowance for uncollectibles	216,724	307,994	524,718	759,135
Internal balances	222,774	(222,774)	-	-
Due from other governmental agencies and others, net	362,856	469,451	832,307	108,326
Receivables from related parties and component units	-	-	-	116,939
Inventories	3,752	32,367	36,119	-
Other assets	10,761	2,723	13,484	13,097
Restricted cash and investments	157,699	664	158,363	30,971
Net pension asset	-	-	-	17,197
Net OPEB asset	-	-	-	961
Capital assets:				
Nondepreciable	816,286	62,575	878,861	162,202
Depreciable, net of accumulated depreciation	2,203,687	110,570	2,314,257	401,495
Total assets	<u>6,859,592</u>	<u>976,744</u>	<u>7,836,336</u>	<u>2,073,594</u>
Deferred outflows of resources:				
Pension items	616,327	294,908	911,235	10,188
OPEB items	108,309	51,905	160,214	5,078
Unamortized loss on refunding debt	23,548	-	23,548	-
Deferred outflows on derivative instruments	15,642	-	15,642	-
Total deferred outflows of resources	<u>763,826</u>	<u>346,813</u>	<u>1,110,639</u>	<u>15,266</u>
Liabilities:				
Accounts payable	231,147	158,032	389,179	47,616
Accrued salaries and benefits	72,870	51,163	124,033	704
Accrued liabilities	50,228	135,400	185,628	99,156
Due to third-party payers	-	87,358	87,358	-
Due to other governmental agencies	482,046	169,315	651,361	768,158
Due to related parties	-	-	-	118,150
Unearned revenue	118,015	18,162	136,177	1,335
Long-term and other liabilities:				
Due within one year:				
Long-term liabilities	192,878	26,104	218,982	9,552
Due in more than one year:				
Long-term liabilities	2,863,573	111,862	2,975,435	270,465
Net pension liability	2,793,972	1,298,606	4,092,578	-
Net OPEB liability	868,245	420,177	1,288,422	2,539
Derivative instruments liabilities	15,642	-	15,642	-
Total liabilities	<u>7,688,616</u>	<u>2,476,179</u>	<u>10,164,795</u>	<u>1,317,675</u>
Deferred inflows of resources:				
Pension related items	75,339	35,119	110,458	3,763
OPEB items	134,458	66,918	201,376	1,627
Deferred service concession arrangement receipts	13,188	-	13,188	-
Total deferred inflows of resources	<u>222,985</u>	<u>102,037</u>	<u>325,022</u>	<u>5,390</u>
Net position:				
Net investment in capital assets	1,086,712	130,541	1,217,253	200,384
Restricted for:				
Debt service	130,515	-	130,515	-
Parks	98,353	-	98,353	-
Housing programs	175,101	-	175,101	-
Mental health	134,125	-	134,125	-
Other purposes	293,948	-	293,948	44,695
Unrestricted	(2,206,937)	(1,385,200)	(3,592,137)	520,716
Total net position	<u>\$ (288,183)</u>	<u>\$ (1,254,659)</u>	<u>\$ (1,542,842)</u>	<u>\$ 765,795</u>

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA
Statement of Activities
For the Fiscal Year Ended June 30, 2019
(In thousands)

	<u>Program Revenues</u>				
	<u>Expenses</u>	<u>Indirect Expenses Allocation</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Function/program activities:					
Primary government:					
Governmental activities:					
General government	\$ 568,373	\$ (77,006)	\$ 105,445	\$ 309,220	\$ -
Public protection	1,154,310	4,927	101,110	289,084	-
Public ways and facilities	47,404	1,567	3,900	52,969	14,399
Health and sanitation	673,731	18,607	56,416	272,752	-
Public assistance	945,786	8,157	4,818	775,941	-
Education	50,131	1,071	820	2,937	-
Recreation and culture	53,369	2,361	7,170	876	-
Interest on long-term liabilities	98,565	-	-	-	-
Total governmental activities	<u>3,591,669</u>	<u>(40,316)</u>	<u>279,679</u>	<u>1,703,779</u>	<u>14,399</u>
Business-type activities:					
Healthcare	2,424,448	40,191	2,220,422	160,650	8,033
Airport	2,419	125	2,579	-	-
Sanitation	2,724	-	3,029	-	-
Total business-type activities	<u>2,429,591</u>	<u>40,316</u>	<u>2,226,030</u>	<u>160,650</u>	<u>8,033</u>
Total primary government	<u>\$ 6,021,260</u>	<u>\$ -</u>	<u>\$ 2,505,709</u>	<u>\$ 1,864,429</u>	<u>\$ 22,432</u>
Component units	<u>\$ 1,573,136</u>		<u>\$ 1,624,725</u>	<u>\$ 19,932</u>	<u>\$ -</u>

General revenues:

- Property taxes
- Sales and use taxes
- Other taxes
- Unrestricted intergovernmental - motor vehicle in lieu of taxes
- Grants/contributions not restricted to specific programs
- Investment income
- Other:
 - Penalties on delinquent taxes
 - Tobacco settlement revenues
 - Miscellaneous revenues

Transfers

Special item - Acquisition of healthcare facilities (Note 1(r))

- Total general revenues, transfers, and special item
- Change in net position
- Net position, beginning of year
- Net position, end of year

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA
Statement of Activities (Continued)
For the Fiscal Year Ended June 30, 2019
(In thousands)

Net (Expense) Revenue and Changes in Net Position

Primary Government				
Governmental Activities	Business- type Activities	Total	Component Units	
				Function/program activities:
				Primary government:
				Governmental activities:
\$ (76,702)	\$ -	\$ (76,702)	\$ -	General government
(769,043)	-	(769,043)	-	Public protection
22,297	-	22,297	-	Public ways and facilities
(363,170)	-	(363,170)	-	Health and sanitation
(173,184)	-	(173,184)	-	Public assistance
(47,445)	-	(47,445)	-	Education
(47,684)	-	(47,684)	-	Recreation and culture
(98,565)	-	(98,565)	-	Interest on long-term liabilities
<u>(1,553,496)</u>	<u>-</u>	<u>(1,553,496)</u>	<u>-</u>	Total governmental activities
				Business-type activities:
-	(75,534)	(75,534)	-	SCVMC
-	35	35	-	Airport
-	305	305	-	Sanitation
<u>-</u>	<u>(75,194)</u>	<u>(75,194)</u>	<u>-</u>	Total business-type activities
<u>(1,553,496)</u>	<u>(75,194)</u>	<u>(1,628,690)</u>	<u>-</u>	Total primary government
<u>-</u>	<u>-</u>	<u>-</u>	<u>71,521</u>	Component units
1,608,669	-	1,608,669	-	General revenues:
58,589	-	58,589	-	Property taxes
693	-	693	-	Sales and use taxes
13,424	-	13,424	-	Other taxes
54,352	-	54,352	-	Unrestricted intergovernmental - motor vehicle in lieu of taxes
91,398	8,592	99,990	15,977	Grants/contributions not restricted to specific programs
				Investment income
33,928	-	33,928	-	Other:
18,277	-	18,277	-	Penalties on delinquent taxes
23,803	-	23,803	2,715	Tobacco settlement revenues
(32,092)	32,092	-	-	Miscellaneous revenues
<u>(75,247)</u>	<u>15,517</u>	<u>(59,730)</u>	<u>-</u>	Transfers
<u>1,795,794</u>	<u>56,201</u>	<u>1,851,995</u>	<u>18,692</u>	Special item - Acquisition of healthcare facilities (Note 1(r))
<u>242,298</u>	<u>(18,993)</u>	<u>223,305</u>	<u>90,213</u>	Total general revenues, transfers, and special item
<u>(530,481)</u>	<u>(1,235,666)</u>	<u>(1,766,147)</u>	<u>675,582</u>	Change in net position
<u>\$ (288,183)</u>	<u>\$ (1,254,659)</u>	<u>\$ (1,542,842)</u>	<u>\$ 765,795</u>	Net position, beginning of year, as restated
				Net position, end of year

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Balance Sheet
Governmental Funds

June 30, 2019
(In thousands)

	<u>General Fund</u>	<u>General Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Assets:				
Cash and investments:				
Unrestricted	\$ 1,383,884	\$ 385,593	\$ 833,858	\$ 2,603,335
Restricted with fiscal agents	-	-	602	602
Other restricted	44	-	147,598	147,642
Receivables:				
Property taxes	3,878	-	-	3,878
Other, net of allowance for uncollectibles	37,545	-	160,659	198,204
Due from other funds	154,118	16,000	6,296	176,414
Due from other governmental agencies, net	349,351	-	13,240	362,591
Inventories	2,095	-	596	2,691
Other assets	4,054	-	1,700	5,754
Advances to other funds	23,795	-	-	23,795
Total assets	<u>\$ 1,958,764</u>	<u>\$ 401,593</u>	<u>\$ 1,164,549</u>	<u>\$ 3,524,906</u>
Liabilities, Deferred Inflows of Resources and Fund Balances:				
Liabilities:				
Accounts payable	\$ 168,934	\$ 40,098	\$ 6,962	\$ 215,994
Accrued salaries and benefits	59,231	-	8,081	67,312
Other accrued liabilities	5,828	-	17,971	23,799
Due to other funds	-	-	22,296	22,296
Due to other governmental agencies	481,470	2	573	482,045
Advances from other funds	-	-	20,699	20,699
Unearned revenue	116,474	-	1,541	118,015
Total liabilities	<u>831,937</u>	<u>40,100</u>	<u>78,123</u>	<u>950,160</u>
Deferred inflows of resources:				
Unavailable revenue	86,323	-	154,405	240,728
Fund balances:				
Nonspendable	29,944	-	596	30,540
Restricted	200,863	-	787,882	988,745
Committed	72,220	361,493	87,528	521,241
Assigned	96,519	-	63,024	159,543
Unassigned	640,958	-	(7,009)	633,949
Total fund balances	<u>1,040,504</u>	<u>361,493</u>	<u>932,021</u>	<u>2,334,018</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,958,764</u>	<u>\$ 401,593</u>	<u>\$ 1,164,549</u>	<u>\$ 3,524,906</u>

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Reconciliation of the Governmental Funds Balance Sheet to the
Government-wide Statement of Net Position - Governmental Activities

June 30, 2019
(In thousands)

Fund balances - total governmental funds (page 28)	\$ 2,334,018
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	2,992,620
Loss on bond refundings are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net position.	23,548
Other long-term receivables are not available to pay for current period expenditures and therefore are recorded as deferred inflows of resources in the funds.	240,728
Long-term receivables from service concession arrangements are not current financial resources and therefore are not reported in the governmental funds.	3,810
Deferred inflows of resources related to the receivable and capital assets from the service concession arrangements are not due and payable in the current period and therefore are not reported in the governmental funds.	(13,188)
Deferred outflows and inflows of resources for pension items are not financial resources and, therefore, are not reported in the governmental funds.	
Deferred outflows of resources	616,327
Deferred inflows of resources	(75,339)
Deferred outflows and inflows of resources for OPEB items are not financial resources and, therefore, are not reported in the governmental funds.	
Deferred outflows of resources	108,309
Deferred inflows of resources	(134,458)
Internal service funds are used by management to charge the costs of management of information services, fleet management, insurance, printing, unemployment insurance, workers' compensation, employee benefits, retiree healthcare and pension obligation to individual funds. The assets and liabilities are included in governmental activities in the statement of net position.	(261,362)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	
Bonds payable (excludes Pension Funding Bonds recorded in the internal service funds)	\$ (2,248,170)
Accrued vacation and sick leave	(170,906)
Net pension liability	(2,793,972)
Net OPEB liability	(868,245)
Capital lease obligations	(787)
Accrued interest payable	(19,176)
Pollution remediation obligation	(13,740)
Accrued litigation liability	(8,200)
	(6,123,196)
Net Position - governmental activities (page 25)	\$ (288,183)

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

For the Fiscal Year Ended June 30, 2019
(In thousands)

	<u>General Fund</u>	<u>General Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Revenues:				
Taxes	\$ 1,350,064	\$ -	\$ 322,035	\$ 1,672,099
Licenses and permits	17,155	-	28,111	45,266
Fines, forfeitures, and penalties	52,874	-	2,430	55,304
Interest and investment income	70,571	3,524	19,493	93,588
Intergovernmental revenues	1,579,189	-	208,350	1,787,539
Charges for services	125,670	-	42,967	168,637
Other revenue	40,076	-	12,405	52,481
Total revenues	<u>3,235,599</u>	<u>3,524</u>	<u>635,791</u>	<u>3,874,914</u>
Expenditures:				
Current:				
General government	268,984	-	158	269,142
Public protection	931,718	-	172,217	1,103,935
Public ways and facilities	-	-	47,156	47,156
Health and sanitation	658,100	-	33,242	691,342
Public assistance	921,344	-	53,787	975,131
Education	-	-	48,311	48,311
Recreation and culture	-	-	50,183	50,183
Capital outlay	-	285,463	33,483	318,946
Debt service:				
Principal retirement	20,990	-	65,540	86,530
Interest and fiscal charges	23,918	-	37,137	61,055
Payment to bond refunding escrow	-	-	13,649	13,649
Cost of issuance	-	-	4,246	4,246
Total expenditures	<u>2,825,054</u>	<u>285,463</u>	<u>559,109</u>	<u>3,669,626</u>
Excess (deficiency) of revenues over (under) expenditures	<u>410,545</u>	<u>(281,939)</u>	<u>76,682</u>	<u>205,288</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	6,004	-	1,709	7,713
Bond premium	-	-	41,625	41,625
Bonds issuance	-	-	441,535	441,535
Refunding bonds issuance	-	-	55,090	55,090
Payment to bond refunding escrow	-	-	(60,367)	(60,367)
Transfers in	107,862	584,014	80,534	772,410
Transfers out	(299,567)	(930)	(547,612)	(848,109)
Total other financing sources (uses)	<u>(185,701)</u>	<u>583,084</u>	<u>12,514</u>	<u>409,897</u>
Special item:				
Acquisition of healthcare facilities (Note 1(r))	-	(233,997)	-	(233,997)
Net change in fund balances	<u>224,844</u>	<u>67,148</u>	<u>89,196</u>	<u>381,188</u>
Fund balances, beginning of year	<u>815,660</u>	<u>294,345</u>	<u>842,825</u>	<u>1,952,830</u>
Fund balances, end of year	<u>\$ 1,040,504</u>	<u>\$ 361,493</u>	<u>\$ 932,021</u>	<u>\$ 2,334,018</u>

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Government-wide
Statement of Activities - Governmental Activities

For the Fiscal Year Ended June 30, 2019

(In thousands)

Net change in fund balances - total governmental funds (page 30)	\$	381,188
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	\$	499,987
Net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, donations)		(2,024)
Transfer of capital assets from business-type activities		12,858
Transfer of capital assets to business-type activities		(7,974)
Less current year depreciation		<u>(130,421)</u>
		372,426
Revenues recognized in the governmental funds that were earned and recognized in previous years and are reported as beginning net position in the statement of activities. Revenues earned in the current year that did not meet the revenue recognition criteria for governmental funds are reported as revenues in the statement of activities.		
		29,628
Pension and OPEB contributions made subsequent to the measurement date are expenditures in the governmental funds, but reported as deferred outflows of resources in the government-wide financial statements.		
		375,322
Pension and OPEB expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
		(528,829)
Issuance and refunding of bonds are reported as other financing sources in governmental funds and thus contribute to the change in fund balances. However, bonds issuance changes long-term liabilities in the statement of net position and do not affect the statement of activities.		
Debt issued or incurred:		
Bonds issuance		(538,250)
Payment to bond refunding escrow, adjusted for \$1,765 for interest payment		<u>72,251</u>
		(465,999)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		86,530
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Amortization of bond premium		7,668
Amortization of loss on refunding debt		(1,603)
Change in accrued interest payable		(880)
Change in accreted interest - Tobacco Settlement Asset-Backed Bonds		(11,896)
Change in pollution remediation obligations		(910)
Change in accrued litigation liability		(700)
Change in long-term compensated absences		<u>(3,810)</u>
		(12,131)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds is reported with governmental activities.		
		<u>4,163</u>
Change in net position of governmental activities (page 27)	\$	<u><u>242,298</u></u>

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Fund Net Position

Proprietary Funds

June 30, 2019

(In thousands)

	Business-type Activities - Enterprise Funds				Governmental
	SCVMC	Valley	Other	Total	Internal
		Health Plan			Service Funds
Assets:					
Current assets:					
Cash and investments:					
Unrestricted	\$ 56,734	\$ 146,022	\$ 10,418	\$ 213,174	\$ 261,718
Restricted with fiscal agent	1	-	663	664	9,455
Receivables:					
Patient accounts receivable, net of estimated uncollectables	296,371	-	-	296,371	-
Other	294	11,232	97	11,623	10,832
Due from other governmental agencies	469,451	-	-	469,451	265
Inventories	32,367	-	-	32,367	1,061
Prepaid rent/insurance	2,127	528	-	2,655	4,256
Total current assets	<u>857,345</u>	<u>157,782</u>	<u>11,178</u>	<u>1,026,305</u>	<u>287,587</u>
Noncurrent assets:					
Other assets	-	-	68	68	751
Capital assets:					
Nondepreciable	30,895	24,778	6,902	62,575	1,858
Depreciable, net of accumulated depreciation	54,261	44,110	12,199	110,570	25,495
Total noncurrent assets	<u>85,156</u>	<u>68,888</u>	<u>19,169</u>	<u>173,213</u>	<u>28,104</u>
Total assets	<u>942,501</u>	<u>226,670</u>	<u>30,347</u>	<u>1,199,518</u>	<u>315,691</u>
Deferred outflows of resources:					
Pension items	288,045	6,583	280	294,908	-
OPEB items	50,379	1,448	78	51,905	-
Total deferred outflows of resources	<u>338,424</u>	<u>8,031</u>	<u>358</u>	<u>346,813</u>	<u>-</u>
Liabilities:					
Current liabilities:					
Accounts payable	73,056	84,248	728	158,032	15,153
Accrued salaries and benefits	50,056	1,071	36	51,163	5,558
Accrued liabilities	71,467	63,762	171	135,400	7,253
Due to other funds	152,993	-	-	152,993	1,125
Due to third-party payers	87,358	-	-	87,358	-
Due to other governmental agencies	169,315	-	-	169,315	1
Unearned revenues	-	18,072	90	18,162	-
Current portion of insurance claims	-	-	-	-	41,649
Current portion of accrued vacation and sick leave	18,585	116	11	18,712	1,389
Current portion of bonds payable	7,203	-	189	7,392	10,990
Total current liabilities	<u>630,033</u>	<u>167,269</u>	<u>1,225</u>	<u>798,527</u>	<u>83,118</u>
Noncurrent liabilities:					
Advances from other funds	-	-	3,096	3,096	-
Noncurrent portion of insurance claims	-	-	-	-	140,763
Noncurrent portion of accrued vacation and sick leave	74,870	1,702	78	76,650	15,076
Noncurrent portion of bonds payable	31,702	-	3,510	35,212	404,781
Net pension liability	1,268,385	28,988	1,233	1,298,606	-
Net OPEB liability	407,819	11,727	631	420,177	-
Total noncurrent liabilities	<u>1,782,776</u>	<u>42,417</u>	<u>8,548</u>	<u>1,833,741</u>	<u>560,620</u>
Total liabilities	<u>2,412,809</u>	<u>209,686</u>	<u>9,773</u>	<u>2,632,268</u>	<u>643,738</u>
Deferred inflows of resources:					
Pension items	34,301	784	34	35,119	-
OPEB items	64,951	1,867	100	66,918	-
Total deferred inflows of resources	<u>99,252</u>	<u>2,651</u>	<u>134</u>	<u>102,037</u>	<u>-</u>
Net position:					
Net investment in capital assets	46,251	68,888	15,402	130,541	27,353
Unrestricted	(1,277,387)	(46,524)	5,396	(1,318,515)	(355,400)
Total net position	<u>\$ (1,231,136)</u>	<u>\$ 22,364</u>	<u>\$ 20,798</u>	<u>(1,187,974)</u>	<u>\$ (328,047)</u>
Adjustment to reflect the consolidation of internal service fund activities to enterprise funds.				(66,685)	
Net position of business-type activities				<u>\$ (1,254,659)</u>	

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds

For the Fiscal Year Ended June 30, 2019
(In thousands)

	Business-type Activities - Enterprise Funds				Governmental
	Valley			Total	Internal
	SCVMC	Health Plan	Other		Service Funds
Operating revenues:					
Charges for services	\$ 1,665,122	\$ 555,300	\$ 5,608	\$ 2,226,030	\$ 378,104
Other program revenues	160,650	-	-	160,650	-
Net operating revenues	<u>1,825,772</u>	<u>555,300</u>	<u>5,608</u>	<u>2,386,680</u>	<u>378,104</u>
Operating expenses:					
Salaries and benefits	1,121,263	28,961	863	1,151,087	285,055
Services and supplies	210,364	516,012	945	727,321	80,885
General and administrative	82,847	-	-	82,847	13,663
Professional services	346,672	-	650	347,322	1,922
Depreciation	19,495	8,006	589	28,090	8,732
Leases and rentals	10,469	-	-	10,469	35
Utilities	15,498	-	-	15,498	-
Insurance claims and premiums	15,352	-	77	15,429	69,307
Other	14,086	-	1,902	15,988	-
Total operating expenses	<u>1,836,046</u>	<u>552,979</u>	<u>5,026</u>	<u>2,394,051</u>	<u>459,599</u>
Operating income (loss)	<u>(10,274)</u>	<u>2,321</u>	<u>582</u>	<u>(7,371)</u>	<u>(81,495)</u>
Nonoperating revenues (expenses):					
Investment income	4,239	4,107	246	8,592	7,807
Interest expense	(913)	-	(247)	(1,160)	(24,788)
Gain (loss) on disposal of capital assets	(90)	-	-	(90)	(58)
Other, net	(3,458)	1	-	(3,457)	799
Total nonoperating revenues (expenses), net	<u>(222)</u>	<u>4,108</u>	<u>(1)</u>	<u>3,885</u>	<u>(16,240)</u>
Income (loss) before transfers	<u>(10,496)</u>	<u>6,429</u>	<u>581</u>	<u>(3,486)</u>	<u>(97,735)</u>
Capital contributions	8,033	-	-	8,033	-
Capital assets transferred out to governmental activities	(12,858)	-	-	(12,858)	-
Transfers in	60,142	1,438	262	61,842	111,709
Transfers out	(97,852)	-	-	(97,852)	-
Special item - Acquisition of healthcare facilities (Note 1(r))	15,517	-	-	15,517	-
Change in net position	<u>(37,514)</u>	<u>7,867</u>	<u>843</u>	<u>(28,804)</u>	<u>13,974</u>
Net position, beginning of year	<u>(1,193,622)</u>	<u>14,497</u>	<u>19,955</u>	<u>(1,159,170)</u>	<u>(342,021)</u>
Net position, end of year	<u>\$ (1,231,136)</u>	<u>\$ 22,364</u>	<u>\$ 20,798</u>	<u>\$ (1,187,974)</u>	<u>\$ (328,047)</u>
Change in net position of enterprise funds				\$ (28,804)	
Adjustment to reflect the consolidation of internal service funds to enterprise funds.				9,811	
Change in net position of business-type activities				<u>\$ (18,993)</u>	

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2019
(In thousands)

	Business-type Activities - Enterprise Funds				Governmental
	SCVMC	Valley		Total	Internal
		Health Plan	Other		Service Funds
Cash flows from operating activities:					
Cash receipts from customers and users	\$ 1,440,235	\$ 555,840	\$ 5,671	\$ 2,001,746	\$ 373,609
Cash payment to suppliers for goods and services	(649,351)	(475,257)	(3,668)	(1,128,276)	(90,223)
Cash payment to employees for services	(1,101,208)	(27,357)	(1,055)	(1,129,620)	(139,337)
Cash payment for retirement benefits	-	-	-	-	(133,544)
Cash payment for judgments and claims	-	-	-	-	(59,357)
Other receipts (payments)	(3,458)	1	-	(3,457)	799
Net cash provided by (used in) operating activities	(313,782)	53,227	948	(259,607)	(48,053)
Cash flows from noncapital financing activities:					
Cash receipts from borrowings from other funds	150,902	-	-	150,902	-
Cash repayment to other funds	-	-	-	-	(63)
Principal paid on pension obligation bonds	-	-	-	-	(5,168)
Interest paid on pension obligation bonds	-	-	-	-	(22,253)
Transfers in	60,142	1,438	262	61,842	104,975
Transfers out	(91,118)	-	-	(91,118)	-
Net cash provided by noncapital financing activities	119,926	1,438	262	121,626	77,491
Cash flows from capital and related financing activities:					
Principal paid on bonds	(6,036)	-	(180)	(6,216)	-
Interest paid	(1,900)	-	(184)	(2,084)	-
Acquisition of capital assets	(34,960)	(59,875)	(768)	(95,603)	(11,001)
Proceeds from sale of capital assets	-	-	-	-	89
Capital contributions received	2,020	-	-	2,020	-
Net cash used in capital and related financing activities	(40,876)	(59,875)	(1,132)	(101,883)	(10,912)
Cash flows from investing activities:					
Investment income received	6,787	4,107	246	11,140	7,997
Investment expenses paid	-	-	-	-	(190)
Net cash provided by investing activities	6,787	4,107	246	11,140	7,807
Net change in cash and cash equivalents	(227,945)	(1,103)	324	(228,724)	26,333
Cash and cash equivalents, beginning of year	284,680	147,125	10,757	442,562	244,840
Cash and cash equivalents, end of year	\$ 56,735	\$ 146,022	\$ 11,081	\$ 213,838	\$ 271,173
Cash and cash equivalents:					
Cash and investments:					
Unrestricted	\$ 56,734	\$ 146,022	\$ 10,418	\$ 213,174	\$ 261,718
Restricted with fiscal agents	1	-	663	664	9,455
Total cash and cash equivalents	\$ 56,735	\$ 146,022	\$ 11,081	\$ 213,838	\$ 271,173

(Continued)

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2019
(In thousands)

	Business-type Activities - Enterprise Funds				Governmental
	SCVMC	Valley		Total	Internal
		Health Plan	Other		Service Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (10,274)	\$ 2,321	\$ 582	\$ (7,371)	\$ (81,495)
Adjustments to reconcile operating income (loss) to net cash provided (used in) by operating activities:					
Depreciation	19,495	8,006	589	28,090	8,732
Provision for bad debts	13,321	-	-	13,321	-
Miscellaneous nonoperating revenues (expenses), net	(3,458)	1	-	(3,457)	799
Decrease (increase) in assets:					
Receivables	(148,151)	(2,440)	66	(150,525)	(4,354)
Due from other governmental agencies	(192,877)	-	-	(192,877)	(141)
Inventories	(1,448)	-	-	(1,448)	97
Prepaid rent/insurance	3,800	(232)	-	3,568	(1,148)
Increase (decrease) in liabilities:					
Accounts payable	23,054	25,757	(55)	48,756	7,606
Accrued salaries and benefits	9,431	13	(5)	9,439	-
Accrued liabilities	20,531	15,230	7	35,768	2,797
Due to third-party payers	17,841	-	-	17,841	-
Accrued vacation and sick leave	3,188	171	(4)	3,355	9,377
Insurance claims	-	-	-	-	9,677
Due to other governmental agencies	(75,671)	-	-	(75,671)	-
Unearned revenue	-	2,980	(3)	2,977	-
Changes in pension items:					
Deferred outflows of resources	59,112	1,105	133	60,350	-
Deferred inflows of resources	13,470	323	9	13,802	-
Net pension liability	(34,193)	145	(317)	(34,365)	-
Changes in OPEB items:					
Deferred outflows of resources	7,764	129	7	7,900	-
Deferred inflows of resources	(6,519)	(72)	(4)	(6,595)	-
Net OPEB liability	(32,198)	(210)	(11)	(32,419)	-
Net cash provided by (used in) operating activities	\$ (313,782)	\$ 53,227	\$ 948	\$ (259,607)	\$ (48,053)
Supplemental disclosure of noncash capital and noncapital financing activities:					
Noncash capital and related financing activities:					
Acquisition of capital assets through accounts payable	\$ 2,541	\$ -	\$ -	\$ 2,541	\$ -
Amortization of bond premiums (discounts)	862	-	(1)	861	-
Transfer of capital assets from the County's governmental activities	7,974	-	-	7,974	-
Transfer of capital assets from (to) proprietary funds	(6,734)	-	-	(6,734)	6,734
Transfer of current assets from the County's governmental activities	7,543	-	-	7,543	-
Transfer of capital assets to the County's governmental activities	(12,858)	-	-	(12,858)	-
Noncash noncapital financing activities:					
Accretion of interest on capital appreciation bonds	-	-	-	-	7,238

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2019

(In thousands)

	<u>Investment Trust Funds</u>	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
Assets:			
Cash and investments:			
Unrestricted	\$ 5,168,081	\$ 54,383	\$ 280,754
Other restricted	5	-	3,357
Receivables:			
Property taxes	-	-	41,287
Interest	21,296	246	31,047
Other	-	70	-
Due from other agency funds	-	-	26,750
Due from other governmental agencies	-	-	2,826
Other assets	-	94,228	2,593
Total assets	<u>5,189,382</u>	<u>148,927</u>	<u>388,614</u>
Liabilities:			
Accounts payable	-	53,041	-
Other accrued liabilities	-	671	-
Due to other agency funds	-	-	26,750
Due to other governmental agencies	-	443	22,228
Deposits from others	-	94,586	-
Fiduciary liabilities	-	-	339,636
Total liabilities	<u>-</u>	<u>148,741</u>	<u>388,614</u>
Net position:			
Restricted for pool participants and trusts	<u>\$ 5,189,382</u>	<u>\$ 186</u>	<u>\$ -</u>

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SANTA CLARA

Statement of Changes in Fiduciary Net Position
Fiduciary Funds

For the Fiscal Year Ended June 30, 2019
(In thousands)

	<u>Investment Trust Funds</u>	<u>Private-Purpose Trust Fund</u>
Additions:		
Contributions to pooled investments	\$ 15,434,752	\$ -
Interest and investment income	123,254	675
Total additions	<u>15,558,006</u>	<u>675</u>
Deductions:		
Distributions and administrative expenses	<u>14,581,413</u>	<u>-</u>
Total deductions	<u>14,581,413</u>	<u>-</u>
Change in net position	976,593	675
Net position, beginning of year	<u>4,212,789</u>	<u>(489)</u>
Net position, end of year	<u>\$ 5,189,382</u>	<u>\$ 186</u>

The notes to the basic financial statements are an integral part of this statement.

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COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements

June 30, 2019

(Dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) *Description of the Reporting Entity*

The County of Santa Clara (County), California (State), was established on June 1, 1850. The County's powers are exercised through a Board of Supervisors (the Board), which is the governing body of the County. The Board is responsible for the legislative and executive control of the County. The County provides various services on a County-wide basis and certain services only to unincorporated areas. Services provided include law and justice, education, detention, social services, health, hospital, fire protection, sanitation, road construction and maintenance, park and recreation facilities, elections and records, communications, planning, zoning, treasury, and tax collection.

The governmental reporting entity consists of the County (Primary Government) and its component units. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County. Financial accountability is also defined as the fiscal dependency of the component units on the County and the potential for the component unit to provide a financial benefit to or impose a financial burden on the County regardless of the organization of the governing board of the component unit.

The basic financial statements include both blended and discretely presented component units. The blended component units are, although legally separate entities, in substance part of the County's operations and so data from these units are combined with data of the primary government. The discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government.

For financial reporting purposes, the County's basic financial statements include all financial activities that are controlled by or are dependent upon actions taken by the County's Board. The financial statements of the individual component units may be obtained from the County's Controller-Treasurer Department located at 70 West Hedding Street, 2nd Floor, East Wing, San Jose, California 95110.

Blended Component Units

The Board serves as the governing board of the entities listed below. The County has financial and operational responsibility for these component units and the services provided by these entities benefit the County. Accordingly, these entities are presented as blended component units of the County.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

The following component units are blended in the County’s basic financial statements:

Component unit	Blended in the basic financial statements under the category of:
Santa Clara County Central Fire Protection District South Santa Clara County Fire District Los Altos Hills County Fire District	Nonmajor governmental funds - all fire districts are reported together in a special revenue fund.
Santa Clara County Library	Nonmajor governmental fund
Santa Clara County Vector Control District	Nonmajor governmental fund
County Sanitation District 2 - 3 of Santa Clara County	Nonmajor enterprise fund
Santa Clara County Financing Authority	SCCFA is included in the financial statements for the Santa Clara Valley Medical Center (SCVMC) and nonmajor governmental funds
Silicon Valley Tobacco Securitization Authority	Nonmajor governmental fund
Santa Clara County Tobacco Securitization Corporation	Nonmajor governmental fund

Discretely Presented Component Units

The FIRST 5 Santa Clara County (FIRST 5) was created on March 30, 1999, under the provisions of the California Children and Families Act of 1998 (the Act). The Act became law in 1998 when California voters approved Proposition 10, authorizing the State to levy a tax on tobacco products to pay for programs to promote the healthy development of young children. FIRST 5’s board consists of nine members, two of whom are officers of the County, while the remaining seven are appointed by the Board. FIRST 5 does not provide a financial benefit nor impose a financial burden on the County. FIRST 5 is financially accountable to the County as the County appoints a voting majority of FIRST 5’s governing board, and the County is able to impose its will on FIRST 5. Due to the nature and significance of FIRST 5’s relationship with the County, FIRST 5 is a discretely presented component unit of the County. Complete financial statements for FIRST 5 can be obtained directly from its administrative office at 4000 Moorpark Avenue, Suite 200, San Jose, California 95117.

The Santa Clara County Housing Authority (Housing Authority) was established in 1967 by the Board. The purpose of the Housing Authority is to provide affordable housing to low-income families, elderly and handicapped people in Santa Clara County. It accomplishes its objectives by providing management, administrative and educational services to tenants and landlords to facilitate the operation of the various federal and state pretax assistance programs. Most of the housing programs administered by the Housing Authority are funded by contributions from the U.S. Department of Housing and Urban Development (HUD).

The Board appoints a voting majority of the Housing Authority’s Board of Commissioners and can remove appointed members at will. The Housing Authority’s governing body is not substantially the same as that of the County, and the Housing Authority does not provide services entirely or almost entirely to the County. The Housing Authority is presented as a discretely presented component unit of the County. The financial data included for the Housing Authority represents the aggregated data of its business-type activities and its component units. Complete financial statements for the Housing Authority can be obtained directly from its administrative office at 505 W. Julian Street, San Jose, CA 95110.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

The Santa Clara County Health Authority, doing business as Santa Clara Family Health Plan, and the Santa Clara Community Health Authority Joint Powers Authority (collectively, the Health Authority), was established by the County Board pursuant to Section 14087.38 and 14087.54, respectively, of the Welfare and Institutional Code. The Health Authority was created for the purpose of developing the Local Initiative Plan for the expansion of Medi-Cal Managed Care. The majority of the Health Authority's revenues are generated from a contract with the State of California Medi-Cal Program and a contract with the Centers for Medicare and Medicaid Services (CMS) for a Medicare program.

The Health Authority is a legally separate entity governed by a thirteen-member governing board appointed by the County. In April 2012, the County adopted an ordinance, which granted the County the ability to remove the Health Authority's governing board at will. Due to the nature and significance of Health Authority's relationship with the County, the Health Authority is included in the County's basic financial statements as a discretely presented component unit. The Health Authority is a nonprofit entity that is separate and apart from the County, and is not considered to be an agency, division, or department of the County. Furthermore, the Health Authority is not governed by, nor is it subject to, the Charter of the County and is not subject to the County's policies or operational rules. The Health Authority's debts are not expected to be repaid with County resources. Therefore, the Health Authority's data are presented separately from the data of the primary government.

The Health Authority acquired a license under the Knox-Keene Health Care Services Plan Act, and is regulated by the State's Department of Health Care Services (DHCS), California's Department of Managed Health Care (DMHC), and CMS. Complete financial statements for the Health Authority can be obtained directly from its administrative offices at 6201 San Ignacio Avenue, San Jose, CA 95119.

(b) Basis of Presentation

Government-wide Financial Statements

The statement of net position and statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County and between the County and its discretely presented component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct and indirect expenses and program revenues for each segment of the business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include: 1) charges paid by the recipients of goods or services

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

offered by the programs, including fines and penalties, and 2) grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes imposed by the County, are presented instead as general revenues.

When both restricted and unrestricted net position is available, unrestricted resources are used only after restricted resources are depleted.

Fund Financial Statements

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each is displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the County's enterprise and internal service funds are charges for customer services including: medical center charges for services, sanitation and airport fees, insurance charges, employee retirement, healthcare, information services, vehicle and maintenance services and printing support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The County reports the following major governmental and enterprise funds:

- *General Fund* is the general operating fund of the County. It accounts for all financial resources except those required to be accounted for in another fund.
- *General Capital Improvement Fund* accounts for general improvements to County facilities, including the reconstruction and expansion of major capital facilities owned or leased by the County. Revenue sources consist of proceeds from the use and sale of property, interest earnings, and contributions from other County funds.
- *SCVMC Enterprise Fund* accounts for hospital and clinic services provided to County residents. Revenues consist primarily of patient service fees. The fund activities are mainly comprised of operations for the SCVMC-Bascom Hospital, O'Connor Hospital, and Saint Louise Regional Hospital. An annual operating subsidy is provided by the General Fund to supplement SCVMC programs.
- *Valley Health Plan Enterprise Fund* accounts for health care services provided to large employer groups, including the County and individuals insured under various plans such as Covered California, and is delegated by Santa Clara Family Health Plan (SCFHP) to provide health insurance to Medi-Cal members. Revenues are primarily received from employer groups, individual premiums, and other sources.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

The County reports the following additional fund types:

- *Internal Service Funds* provide for information technology, vehicle and maintenance, and printing services provided to County departments; life and dental insurance benefits, workers' compensation, unemployment, retirement healthcare, and pension financing costs for County employees; and other liability claims against the County.
- *Investment Trust Funds* account for commingled pool assets held in trust for schools, other special districts and other agencies which use the County Treasury as their depository, as well as account for separate investments acquired for the San Jose-Evergreen Community College District, Mountain View-Los Altos School District, and Foothill-De Anza Community College District.
- *Private Purpose Trust Fund* are used to account for resources for conservatees managed by the public guardians and administrators. These resources are restricted to a specified purpose that benefits individuals.
- *Agency Funds* are custodial in nature and do not involve measurement of results of operations and account for assets held by the County as an agent for various local governments and individuals. Included are funds for child support payments; employees' long-term disability and supplemental life insurance premiums; and apportioned taxes for other local governmental agencies.

(c) Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements (excluding agency funds). The agency funds do not have a measurement focus but use the accrual basis of accounting for reporting of their assets and liabilities. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when "susceptible to accrual" (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means that revenues are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenues are recognized in the current year if they are collected

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

within 60 days of year-end. For all other revenues, the County considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Revenues not considered available are recorded as deferred inflows of resources. The County's other primary revenue sources: investment income, intergovernmental revenues, and charges for services have been treated as "susceptible to accrual" under the modified accrual basis. Licenses and permits, fines, forfeitures and penalties, and other revenue are not considered "susceptible to accrual" under the modified accrual basis and are recorded as revenues when received. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

(d) Federal, State, and Local Grant Funds

Proprietary funds' federal, state, and local grants are accounted for in accordance with the purpose for which the grants are intended. Approved grants for the acquisition of land, buildings, and equipment are reported as capital contributions and grants for operating assistance are recorded as non-operating revenues in the year in which the grants are applicable and the related grant conditions are met.

(e) County Commingled Investment Pool

The County Treasurer manages a common cash and investment pool for the County, school and community college districts, special districts, and other local public agencies. Investments made by the Treasurer are regulated by the California Government Code and by a County investment policy approved annually by the Board after receiving recommendations from the County Treasury Oversight Committee. Adherence to the statutes and policies is monitored by the Board and the Treasury Oversight Committee.

The pool consists of cash and investments that are either unrestricted or legally restricted to certain trust, bond issue, and specific expenditure purposes. The pool is not registered with the SEC as an investment company. State law requires that the County and its public school districts invest with the County Treasury. These involuntary external members' shares comprise 60% of the pool.

Investments of the pool are stated at fair value. The County has not provided nor obtained any legally binding guarantees during the year ended June 30, 2019 to support the value of shares in the pool.

The value of the participants' pool shares that may be withdrawn is determined on an amortized cost basis, which is different from the fair value of the participants' positions in the pool.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

Separate Investments

The County Treasurer oversees separate investments for most of the County's reserve, payment, and capital resources arising from the issuance of various construction and technology bonds. In addition, self-insurance trusts and benefit plans for the County, Park Charter Fund, and certain school districts own additional separate investments managed by the Treasurer. All of these investments are classified as either unrestricted or restricted for other purposes on the accompanying balance sheets and statement of net position. The Santa Clara County Financing Authority (Financing Authority) maintains restricted cash and investments in separate bank accounts. Separate investments held by the County Treasury are also stated at fair value.

Investment Income

Realized earnings are allocated quarterly to the commingled investment pool participants based on the participants' average daily cash balance relative to the entire pool. A negative average cash balance results in negative earnings that are netted against interest income. Changes in fair value are included in investment income for financial statement reporting purposes.

The County follows legal or contractual provisions regarding the assignment of interest revenue to certain other funds. Interest on bond monies held in the non-major governmental funds have such arrangements. The assignment of other interest is based on management's discretion. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, interest revenue is reported in the fund in which it is earned. Subsequent assignments are reported as transfers.

Fair Value Measurements

Under accounting principles generally accepted in the United States of America (GAAP) and in accordance with GASB Statement No. 72, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the County. Unobservable inputs, if any, reflect the County's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuation based on unadjusted quoted prices in active markets for identical assets or liabilities that the County has the ability to access at measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

Level 2 – Valuation based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

Level 3 – Valuation based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less than observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed, and the differences could be material.

(f) *Statement of Cash Flows*

For purposes of the accompanying statement of cash flows, the County considers all highly liquid investments (including restricted assets) with a maturity of three months or less from the original purchase to be cash equivalents. The majority of the proprietary funds' deposits in the County Treasurer's commingled pool is in substance, demand deposits and is, therefore, considered cash equivalents for purposes of the statement of cash flows.

(g) *Inventories*

Inventories are stated at cost (using the first-in, first-out method), which approximates market, and consist of expendable supplies that are reduced as consumed. Inventories reported in governmental funds are offset by a corresponding nonspendable fund balance, which indicates that they are not in spendable form even though they are a component of current assets.

(h) *Loans Receivable*

For the purpose of the fund financial statements, governmental expenditures relating to long-term loan receivables arising from loan subsidy programs are charged to operations upon funding and the loans are recorded, net of an estimated allowance for potentially uncollectible loans, with an offset to a deferred inflows of resources account. The balance of the long-term receivable includes loans that may be forgiven if certain terms and conditions of the loans are met.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(i) Capital Assets

The County defines capital assets as assets with an initial, individual cost of more than \$150 for infrastructure and buildings and improvements, \$5 for internally generated software, and \$5 for equipment and vehicles with an estimated useful life in excess of one year. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are valued at their acquisition value. Capital assets used in operations are depreciated or amortized (assets under capital leases and other intangible assets) using the straight-line method over the capital lease period or their estimated useful lives in the government-wide statements and proprietary fund statements. Certain assets, for which actual historical costs are not available, have been reported using methods that approximate their historical costs. Depreciation of exhaustible capital assets is charged as an expense against the County’s operations, over their estimated useful lives in the government-wide statements and proprietary fund statements.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Infrastructure.....	5 to 50 years
Buildings and improvements.....	5 to 50 years
Equipment and vehicles.....	3 to 30 years

Interest is capitalized on proprietary funds’ construction in progress. Interest capitalized is the total interest cost from the date of the borrowing net of any interest earned on temporary investments of the proceeds of those borrowings until the specified asset is ready for its intended use.

(j) Property Tax Levy, Collection, and Maximum Rate

The State’s Constitution, Article XIII A provides that the combined maximum amount of any ad valorem property tax rate on real property shall not exceed 1% of the full cash value of such property. This limitation shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on indebtedness. Such indebtedness shall have voter approval unless incurred prior to June 6, 1978. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased no more than 2% per year unless the property is sold or transferred. Whenever there are changes in ownership, completed construction, or demolition, properties are subject to supplemental assessment based on the change in assessed valuation. Supplemental taxes are levied on the value change and prorated for the balance of the tax year. The State Legislature, through Assembly Bill 8 of 1979 and subsequent legislation, defined the methodology for distributing the 1% tax levy and collections among the County, cities, schools, and other local jurisdictions such as districts providing water, fire and library services.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

The County assesses property values and levies, bills and collects the related taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Lien dates.....	January 1	January 1
Levy dates.....	October 1	July 1
Due dates.....	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent after.....	December 10 (for November) April 10 (for February)	August 31

Annually, the Board sets the rates to be applied to the tax roll for the benefit of local taxing jurisdictions as provided by the State code. These taxes are secured by liens on the property being taxed. Taxes secured by land and improvements are levied on the Secured Tax Roll, while those taxes secured by personal property are levied on the Unsecured Tax Roll.

In 1994, the Board adopted the Alternative Method of Tax Apportionment (the Teeter Plan). Under this method, the County distributes 100% of the secured tax levy to participating jurisdictions, regardless of collections. To cover losses on delinquent tax sales, counties using the Teeter Plan must maintain a Tax Losses Reserve Fund. The Tax Losses Reserve Fund is included in the County’s “Apportioned Tax Resources” Agency Fund. When the balance in this fund exceeds the minimum balance required by the State code, the excess may be transferred to the General Fund.

(k) Interfund Transactions

Interfund transactions are reflected as loans, services provided, reimbursements or transfers. Loans reported as receivables and payables, as appropriate, are subject to elimination upon consolidation. The fund financial statements referred to these loans as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e. the noncurrent portion of interfund loans). Any residual balances outstanding between the *governmental activities* and the *business-type activities* are reported in the government-wide statements as “internal balances”. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

(l) Bond Issuance Costs, Original Issue Discounts and Premiums, and Losses on Refunding of Debt

Bond premiums, discounts and prepaid insurance costs for the government-wide statement of net position and proprietary fund types are recorded and amortized over the term of the bonds using a method that approximates the interest method. Bond premiums and discounts in the government-wide statements and in proprietary fund types are presented as an increase or reduction of the face amount of bonds payable, whereas prepaid insurance costs are recorded as an asset. The County also has losses on refunding of debt, which result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is recorded as a deferred outflow of resources and amortized over the shorter of the life of the refunded or the refunding debt.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively. Issuance costs, including prepaid insurance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(m) Leases

The County leases various assets under both operating and capital lease agreements. For governmental fund types, assets under capital leases and the related long-term lease obligations are reported as capital assets and long-term liabilities in the governmental-wide statement of net position, respectively. For proprietary fund types, the assets and related capital lease obligations are recorded in the appropriate proprietary fund.

(n) Accrued Vacation and Sick Leave

Accumulated unpaid vacation and sick leave are recorded as a liability when future payments for such compensated absences have been earned by employees based on pay and salary rates in effect at year-end. This liability is recorded in the government-wide statement of net position and in the various proprietary funds to reflect the County's obligation to fund such costs from future operations. The County includes its share of Social Security and Medicare payments made on behalf of the employees in its accrual for compensated absences. Unused vacation and sick leave are paid out upon separation from the County based on the terms stated in the Memorandum of Understanding between the employees' bargaining units and the County. The County does not accrue for compensated absences in its governmental fund statements and recognizes liabilities for compensated absences only if they are due and payable in an event such as termination.

(o) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County also reports deferred inflows of resources in the governmental funds balance sheet when revenues from property taxes, from the federal and State, and other sources are not available. These amounts are deferred and recognized as revenues in the period the amounts become available.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2019
(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(p) *Pension and Other Postemployment Benefits (OPEB) Plans*

For purposes of measuring the net pension liability (asset) and net OPEB liability, deferred outflows/inflows of resources related to pension and OPEB, and pension and OPEB expenses, information about the fiduciary net position of the County's pension and OPEB plans and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) and the California Employer's Retiree Benefit Trust Fund Program (CERBT). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. CalPERS plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value.

(q) *Effects of New Pronouncements*

During the year ended June 30, 2019, the County implemented the following GASB Statements:

- In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. Implementation of this statement did not have a significant impact on the County's financial statements for the fiscal year ended June 30, 2019.
- In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Implementation of this statement did not have a significant impact on the County's financial statements for the fiscal year ended June 30, 2019. See Note 8 to the basic financial statements for additional disclosures.

In addition, the County is currently analyzing its accounting practices to determine the potential impact of the following pronouncements:

- In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement are effective for the County's fiscal year ending June 30, 2020.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

- In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the County's fiscal year ending June 30, 2021.
- In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are 1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and 2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for the County's fiscal year ending June 30, 2021.
- In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No.14 and No.61*. The objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for the County's fiscal year ending June 30, 2020.
- In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this statement are effective for the County's fiscal year ending June 30, 2022.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(1) Summary of Significant Accounting Policies (Continued)

(r) Special Item – Acquisition of Healthcare Facilities

Special items are transactions or events that are within the control of the County and are either unusual in nature or infrequent in occurrence. On March 1, 2019, the County acquired three healthcare facilities including O’Connor Hospital in San Jose, California, Saint Louise Regional Hospital in Gilroy, California, and De Paul Health Center in Morgan Hill, California for \$233,997 (acquisition price of \$235,000 net of refund of \$1,003) and the amount was paid by General Capital Improvement Fund. The County issued 2019 Series A & Series A-Taxable Lease Revenue Bonds to finance the acquisition. The County acquired capital assets and current assets of \$166,724 and \$7,543, respectively, and did not assume any liabilities. Capital assets of \$7,974 were transferred from the governmental activities to the SCVMC/business-type activities. Current assets of \$7,543 were transferred from the General Capital Improvement Fund/governmental activities to the SCVMC/business-type activities. Below is a summary of the special item:

Acquisition price	\$ 235,000
Refund received	<u>(1,003)</u>
Net acquisition price	<u>\$ 233,997</u>
 <u>General Capital Improvement Fund</u>	
Expenditure for acquisition	\$ (233,997)
Current assets acquired	7,543
Transfer out of current assets	<u>(7,543)</u>
Total	<u>\$ (233,997)</u>
 <u>Governmental Activities</u>	
Expense for acquisition	\$ (233,997)
Capital assets acquired	166,724
Current assets acquired	7,543
Transfer out of capital assets	(7,974)
Transfer out of current assets	<u>(7,543)</u>
Total	<u>\$ (75,247)</u>
 <u>SCVMC/Business-Type Activities</u>	
Transfer in of capital assets	\$ 7,974
Transfer in of current assets	7,543
Total	<u>\$ 15,517</u>

(s) Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(2) Stewardship, Compliance and Accountability

Deficit Net Position and Fund Balance

At June 30, 2019, the County's governmental activities, business-type activities, and the SCVMC enterprise fund have a deficit net position of \$288.2 million, \$1.3 billion, and \$1.2 billion, respectively, due primarily to the reporting of the net pension liability and net OPEB liability pursuant to GASB Statements No. 68 and No.75, respectively. The County is committed to fully funding the actuarially determined contributions annually.

At June 30, 2019, the Nonmajor Governmental Housing 2016 Measure A Fund has a deficit fund balance of \$7.0 million. The deficit is expected to reduce in fiscal year 2020 through transfers of proceeds of Housing General Obligation Bonds from Nonmajor Capital Projects Funds.

At June 30, 2019, the Pension Obligation Internal Service Fund has a deficit net position of \$423.2 million. The deficit net position will be reduced through repayment of pension obligation bonds with final maturity date of August 1, 2036.

(3) Cash and Investments

(a) Description

The County Treasurer maintains common cash and investment pools in which cash may be invested by individual County funds and certain independent local governmental agencies. In addition, investments are held separately by the Treasurer for other County funds, including County Parks, Workers' Compensation Internal Service Fund, and certain school districts. Each fund type's share of the common pool is combined with cash and investments held separately and shown on the accompanying balance sheet and statement of net position as "unrestricted cash and investments".

Cash and investments - restricted with fiscal agents represent monies held by trustees that are legally restricted for the retirement of long-term debt. Cash and investments - other restricted includes monies held in the County Treasury restricted by debt covenants for construction projects and professional services and restricted for specific purposes consisting primarily of reserves for insurance and certain other debt service funds.

(b) Investment Policies

The objectives of the County's investment policy, in order of priority, are safety of principal to ensure preservation of capital in the overall portfolio, maintenance of liquidity sufficient to meet anticipated operating requirements, to attain a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and cash flow characteristics, and to create a positive impact by investing in socially responsible corporations and agencies as defined by priorities set by the Board. The objectives of the policy also ensure mitigation of interest rate risk, credit risk, and concentration of credit risk.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(3) Cash and Investments (Continued)

The table below identifies the investment types that are authorized for the County by the California Government Code (or the County's investment policy, where more restrictive). This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements, rather than the general provisions of the California Government Code or the County's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer	Credit Ratings Minimum (2 Ratings)
U.S. Treasury Obligations	5 years	None	None	N/A
U.S. Agency Securities	5 years	None	None	N/A
State Local Agency Investment Fund (LAIF)	N/A	None	\$50 million	N/A
Repurchase Agreements	92 days	None	None	N/A
Reverse Repurchase Agreements	92 days	20%	\$90 million *	None
Securities Lending	92 days	20% *	None	N/A
Collateralized Bank Deposits	5 years	None	None	None
Negotiable Certificates of Deposit	5 years	30%	5%	A-1/P-1/F1 *
Bankers' Acceptances	180 days	40%	5%	A-1/P-1/F1 *
Commercial Paper	270 days	40%	5%	A-1/P-1/F1 *
Medium-Term Corporate Notes	5 years	30%	5%	Aa3/AA-/AA- *
Municipal Obligations	5 years	10% *	None	MIG-1/SP-1/F1 A3/A-/A-
Money Market Funds - Taxable	N/A	20%	10%	Aaa/AAA/AAA
Money Market Funds - Tax-Exempt	N/A	20%	10%	Aaa/AAA/AAA **
Federal Agency Mortgage Backed Securities	5 years	20% *	None	None
Asset Backed Securities	5 years	20%	None	A3/A-/A- for issuer, Aa3/AA-/AA- for security
Supranational Debt Obligations	5 years	10%	None	AAA

* Represents restriction in which the County's investment policy is more restrictive than the California Code

** Minimum of one credit rating required for Tax-Exempt Money Market Funds

In accordance with Government Code Sections 53620-53622, the assets of the Santa Clara County Retiree Healthcare Plan, which are reported in an Internal Service Fund, may be invested in bonds that have a final maturity of 30 years or less from purchase date, and in bonds with a Moody's credit rating of A3 or higher, a Standard and Poor's rating of A- or higher, or a Fitch rating of A- or higher at time of purchase. Additionally, the Board has determined that up to 67% of the Retiree Healthcare Plan assets, excluding near-term liability payouts, may be invested in equities through mutual funds or through the direct purchase of common stocks by a money management firm(s) approved by the Board.

Investments of debt proceeds held by bond trustees are governed by provisions of debt agreements, rather than the general provisions of the California Government Code or the County's investment policy.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(3) Cash and Investments (Continued)

(c) Summary of Cash and Investments

Total County cash and investments are reported as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Primary Government	\$ 3,078,227	\$ 158,363	\$ 3,236,590
Component Units	463,271	30,971	494,242
Investment Trust Funds	5,168,081	5	5,168,086
Private-Purpose Trust Fund	54,383	-	54,383
Agency Funds	<u>280,754</u>	<u>3,357</u>	<u>284,111</u>
Total cash and investments	<u>\$ 9,044,716</u>	<u>\$ 192,696</u>	<u>\$ 9,237,412</u>

The County's cash and investments are as follows:

Cash and deposits:		
Cash on hand		\$ 76
Deposits of the County		168,673
Restricted deposits		4,751
Deposits with component units:		
Housing Authority		73,581
FIRST 5		3,063
Health Authority		<u>220,164</u>
Total cash and deposits		<u>470,308</u>
Investments:		
With Treasurer		8,558,942
With Treasurer - FIRST 5		1,082
With Treasurer - Health Authority		78,953
With fiscal agents		10,728
With Housing Authority		70,809
With FIRST 5		<u>46,590</u>
Total investments		<u>8,767,104</u>
Total cash, deposits and investments		<u>\$ 9,237,412</u>

(d) Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(3) Cash and Investments (Continued)

(e) Investment Composition

As of June 30, 2019, the major classes of the County's investments consisted of the following:

	Interest Rates	Par Value	Fair Value	Investment Maturities (in years)		
				0 - 1	1 - 3	3 - 5
With Treasurer:						
Commingled pool:						
U.S. Treasury Notes	0.75% - 2.63%	\$ 155,000	\$ 154,968	\$ 139,858	\$ 15,110	\$ -
U.S. Agencies - Coupon	0.88% - 3.38%	3,571,224	3,578,742	1,397,624	1,603,299	577,819
U.S. Agencies - Discount	2.00% - 2.41%	335,000	334,740	334,740	-	-
Medium-Term Corporate Notes	1.10% - 3.63%	567,302	570,588	230,221	284,915	55,452
Asset Backed Securities	1.16% - 3.18%	517,617	520,612	8,966	208,665	302,981
Mortgage Backed Securities	1.97% - 3.84%	334,622	340,452	-	89,587	250,865
Municipal Bonds	1.46% - 5.00%	34,385	34,442	13,209	20,210	1,023
Commercial Paper - Discount	2.10% - 2.93%	813,979	810,849	810,849	-	-
Negotiable Certificate of Deposit	2.54% - 3.00%	935,000	935,600	935,600	-	-
Money Market Mutual Funds	2.19% - 2.26%	1,048,124	1,048,124	1,048,124	-	-
LAIF	2.43%	41,781	41,781	41,781	-	-
Supranationals	0.88% - 2.80%	217,000	217,465	94,683	55,100	67,682
Subtotal commingled pool		<u>8,571,034</u>	<u>8,588,363</u>	<u>5,055,655</u>	<u>2,276,886</u>	<u>1,255,822</u>
Separate Investments:						
U.S. Agencies - Coupon		17,200	17,412	4,982	9,804	2,626
Mortgage Backed Securities		3,000	3,016	-	-	3,016
Municipal Bonds		5,660	5,965	1,278	4,130	557
Money Market Mutual Funds		12,996	12,996	12,996	-	-
Money Market Mutual Funds - Tax Exempt		11,225	11,225	11,225	-	-
Subtotal separate investments		<u>50,081</u>	<u>50,614</u>	<u>30,481</u>	<u>13,934</u>	<u>6,199</u>
Subtotal with Treasurer		<u>8,621,115</u>	<u>8,638,977</u>	<u>5,086,136</u>	<u>2,290,820</u>	<u>1,262,021</u>
With fiscal agents:						
U.S. Treasury Notes		4,560	4,561	972	1,667	1,922
U.S. Agencies - Coupon		3,635	3,673	549	1,683	1,441
Medium-Term Corporate Notes		795	803	200	350	253
Asset Backed Securities		372	375	-	233	142
Money Market Mutual Funds		1,316	1,316	1,316	-	-
Subtotal with fiscal agents		<u>10,678</u>	<u>10,728</u>	<u>3,037</u>	<u>3,933</u>	<u>3,758</u>
With Housing Authority:						
U.S. Agencies - Coupon		4,678	4,678	-	961	3,717
Medium-Term Corporate Notes		8,591	8,591	-	3,354	5,237
Negotiable Certificate of Deposit		6,644	6,644	1,484	4,249	911
Money Market Mutual Funds		654	654	654	-	-
LAIF		50,242	50,242	50,242	-	-
Subtotal with Housing Authority		<u>70,809</u>	<u>70,809</u>	<u>52,380</u>	<u>8,564</u>	<u>9,865</u>
With FIRST 5:						
U.S. Treasury Notes		13,010	13,031	1,737	7,811	3,483
U.S. Agencies - Coupon		14,411	14,485	2,159	8,371	3,955
Medium-Term Corporate Notes		11,525	11,656	1,652	4,975	5,029
Asset Backed Securities		2,402	2,410	1	923	1,486
Mortgage Backed Securities		3,140	3,259	-	472	2,787
Money Market Mutual Funds		1,749	1,749	1,749	-	-
Subtotal with FIRST 5		<u>46,237</u>	<u>46,590</u>	<u>7,298</u>	<u>22,552</u>	<u>16,740</u>
Total Investment		<u>\$ 8,748,839</u>	<u>\$ 8,767,104</u>	<u>\$ 5,148,851</u>	<u>\$ 2,325,869</u>	<u>\$ 1,292,384</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(3) Cash and Investments (Continued)

Custodial Credit Risk - Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

Interest Rate Risk

Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by limiting the weighted average maturity of its commingled pool to eighteen months. At June 30, 2019, the County's weighted average maturity of its commingled pool is 436 days. The County invested in callable Federal Agency Bonds (\$1,521,172 of the County's U.S. Agencies coupon position of \$3,578,742) within its commingled pool. These investments are highly sensitive to interest rate changes and are callable at par prior to maturity based on these rate changes.

Credit Risk

Credit risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. The following is a summary of the credit quality distribution for securities with credit exposure as a percentage of investments with Treasury (Commingled Pool and Separate), fiscal agent, Housing Authority, and FIRST 5 as rated by Moody's Investors Service:

Investment	Moody's Rating	% of Commingled Pool Investments with the Treasury	% of Separate Investments with the Treasury	% of Investments with Fiscal Agents	% of Investments with Housing Authority	% of Investments with FIRST 5
U.S. Treasury Notes	Aaa	1.80%	0.00%	42.51%	0.00%	27.97%
U.S. Agencies - Coupon	Aaa	41.40%	34.40%	34.23%	6.61%	31.09%
U.S. Agencies - Coupon	Unrated	0.29%	0.00%	0.00%	0.00%	0.00%
U.S. Agencies - Discount	P-1	3.90%	0.00%	0.00%	0.00%	0.00%
Asset Backed Securities	Aaa	4.76%	0.00%	2.46%	0.00%	5.17%
Asset Backed Securities	Unrated	1.30%	0.00%	1.03%	0.00%	0.00%
Mortgage Backed Securities	Aaa	3.96%	5.96%	0.00%	0.00%	6.99%
Municipal Bonds	Aaa	0.01%	5.98%	0.00%	0.00%	0.00%
Municipal Bonds	Aa1	0.00%	3.19%	0.00%	0.00%	0.00%
Municipal Bonds	Aa2	0.10%	0.65%	0.00%	0.00%	0.00%
Municipal Bonds	Aa3	0.29%	0.89%	0.00%	0.00%	0.00%
Municipal Bonds	A1	0.00%	1.07%	0.00%	0.00%	0.00%
Medium-term Corporate Notes	Aaa	1.12%	0.00%	2.02%	0.71%	2.52%
Medium-term Corporate Notes	Aa1	0.87%	0.00%	0.94%	0.00%	0.86%
Medium-term Corporate Notes	Aa2	2.17%	0.00%	4.52%	1.44%	1.27%
Medium-term Corporate Notes	Aa3	1.31%	0.00%	0.00%	1.56%	3.01%
Medium-term Corporate Notes	A1	1.05%	0.00%	0.00%	1.98%	5.52%
Medium-term Corporate Notes	A2	0.12%	0.00%	0.00%	3.49%	10.71%
Medium-term Corporate Notes	A3	0.00%	0.00%	0.00%	2.37%	1.14%
Medium-term Corporate Notes	Unrated	0.00%	0.00%	0.00%	0.58%	0.00%
Commercial Paper - Discount	P-1	9.15%	0.00%	0.00%	0.00%	0.00%
Commercial Paper - Discount	Unrated	0.29%	0.00%	0.00%	0.00%	0.00%
Negotiable Certificate of Deposit	P-1	10.89%	0.00%	0.00%	0.00%	0.00%
Negotiable Certificate of Deposit	Unrated	0.00%	0.00%	0.00%	9.38%	0.00%
Money Market Mutual Funds	Aaa	12.20%	24.58%	12.29%	0.00%	3.75%
Money Market Mutual Funds	Unrated	0.00%	23.28%	0.00%	0.92%	0.00%
LAIIF	Unrated	0.49%	0.00%	0.00%	70.96%	0.00%
Supranationals	Aaa	2.53%	0.00%	0.00%	0.00%	0.00%
Total Investments		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(3) Cash and Investments (Continued)

Government Code Section 16429.1 authorizes each local government agency to invest funds in the State Treasurer's Local Agency Investment Fund (LAIF) administered by the California State Treasurer. The total amount recorded by all public agencies in LAIF at June 30, 2019, was approximately \$24.58 billion. LAIF is part of the State's Pooled Money Investment Account (PMIA). PMIA has a total of approximately \$105.74 billion as of June 30, 2019. Of that amount, 98.23% was invested in non-derivative financial products and 1.77% in structured notes and asset backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the County's position in the pool.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer. The County diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name. Investments in U.S. Treasuries, U.S. Agency securities explicitly backed by the U.S., and mutual and pooled funds are not subject to this limitation.

More than 5% of the County's commingled pooled investments are invested with the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association which represent 16.87%, 15.76%, 9.98% and 6.28%, respectively, of the County's commingled pooled investments.

More than 5% of the County's separate pooled investments are invested with the Federal National Mortgage Association, Federal Farm Credit Bank, and Federal Home Loan Mortgage Corporation, which represent 15.80%, 15.56% and 5.84%, respectively, of the County's separate pooled investments.

More than 5% of the investments with fiscal agents are invested with the Federal Home Loan Bank and Federal National Mortgage Association which represent 15.67% and 14.36%, respectively, of the investments with fiscal agents.

More than 5% of the FIRST 5's investments are invested with the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Home Loan Bank, which represent 16.53%, 13.65% and 7.91%, respectively, of the First 5's investments.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(3) Cash and Investments (Continued)

(f) Condensed Financial Information

In lieu of separately issued financial statements for the external pool, condensed financial information is presented below as of and for the year ended June 30, 2019:

Assets:	
U.S. Treasury Notes	\$ 154,968
U.S. Agencies - Coupon	3,596,154
U.S. Agencies - Discount	334,740
Medium-term Corporate Notes	570,588
Asset Backed Securities	520,612
Mortgage Backed Securities	343,468
Municipal Bonds	40,407
Commercial Paper - Discount	810,849
Negotiable Certificate of Deposit	935,600
Money Market Mutual Funds	1,072,345
LAIF	41,781
Supranationals	<u>217,465</u>
Total investments	8,638,977
Other assets (Interest receivable)	<u>29,773</u>
Total assets	<u><u>\$ 8,668,750</u></u>
Net Position	
Equity of internal pool participants	\$ 3,479,368
Equity of individual investment accounts	17,951
Equity of external pool participants	<u>5,171,431</u>
Total net position	<u><u>\$ 8,668,750</u></u>
Statement of Changes in Net Position	
Net position at July 1, 2018	\$ 7,662,470
Net change in investments by pool participants	<u>1,006,280</u>
Net position at June 30, 2019	<u><u>\$ 8,668,750</u></u>
Net position composition of the equity of external pool participants is as follows:	
Participants units outstanding (\$1 par)	\$ 5,189,894
Undistributed and unrealized gain/(loss)	<u>18,463</u>
Net position at June 30, 2019	<u><u>\$ 5,171,431</u></u>
Participants net position value at fair value price per share (\$5,171,431 divided by 5,189,894 units)	<u><u>\$ 0.9964</u></u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(3) Cash and Investments (Continued)

(g) Fair Value Hierarchy

As of June 30, 2019, the County's fair value hierarchy for its investments was as follows:

With Treasurer:	
Commingled pool:	
Investments subject to fair value hierarchy - Level 2 Investments	
U.S. Treasury Notes	\$ 154,968
U.S. Agencies - Coupon	3,578,742
U.S. Agencies - Discount	334,740
Medium-term Corporate Notes	570,588
Asset Backed Securities	520,612
Mortgage Backed Securities	340,452
Municipal Bonds	34,442
Commercial Paper - Discount	810,849
Negotiable Certificate of Deposit	935,600
Supranationals	<u>217,465</u>
Total Investments subject to fair value hierarchy	7,498,458
Investments not subject to fair value hierarchy	
Money Market Mutual Fund	1,048,124
LAIF	<u>41,781</u>
Subtotal Commingled Pool	<u>8,588,363</u>
Separate Investments:	
Investments subject to fair value hierarchy - Level 2 Investments	
U.S. Agencies - Coupon	17,412
Mortgage Backed Securities	3,016
Municipal Bonds	<u>5,965</u>
Total Investments subject to fair value hierarchy	26,393
Investments not subject to fair value hierarchy	
Money Market Mutual Fund	<u>24,221</u>
Subtotal Separate Investments	<u>50,614</u>
Subtotal with Treasurer	<u>8,638,977</u>
With Fiscal Agents:	
Investments subject to fair value hierarchy - Level 2 Investments	
U.S. Treasury Notes	4,561
U.S. Agencies - Coupon	3,673
Medium-term Corporate Notes	803
Asset Backed Securities	<u>375</u>
Total Investments subject to fair value hierarchy	9,412
Investments not subject to fair value hierarchy	
Money Market Mutual Fund	<u>1,316</u>
Subtotal with Fiscal Agents	<u>10,728</u>
With Housing Authority:	
Investments subject to fair value hierarchy - Level 2 Investments	
U.S. Agencies - Coupon	4,678
Medium-Term Corporate Notes	8,591
Negotiable Certificate of Deposit	<u>6,644</u>
Total Investments subject to fair value hierarchy	19,913
Investments not subject to fair value hierarchy	
Money Market Mutual Fund	654
LAIF	<u>50,242</u>
Subtotal with Housing Authority	<u>70,809</u>
With FIRST 5:	
Investments subject to fair value hierarchy - Level 2 Investments	
U.S. Treasury Notes	13,031
U.S. Agencies - Coupon	14,485
Medium-term Corporate Notes	11,656
Asset Backed Securities	2,410
Mortgage Backed Securities	<u>3,259</u>
Total Investments subject to fair value hierarchy	44,841
Investments not subject to fair value hierarchy	
Money Market Mutual Fund	<u>1,749</u>
Subtotal with FIRST 5	<u>46,590</u>
Total Investment	<u>\$ 8,767,104</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(3) Cash and Investments (Continued)

Fixed income investments are valued using a variety of techniques such as matrix pricing, market corroborated pricing inputs such as yield curve, and other market related data and classified in Level 2 of the fair value hierarchy.

Money market mutual funds and LAIF have maturities of one year or less from fiscal year end and are not subject to GASB Statement No. 72.

(4) Receivables

Receivables at year-end for the County’s major individual funds, nonmajor and internal service funds, and governmental and business-type activities in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Government-Wide Service Concession Arrangement	Total Governmental Activities
Receivables - Governmental Activities					
Property tax	\$ 3,878	\$ -	\$ -	\$ -	\$ 3,878
Loans receivable	-	154,405	-	-	154,405
Other	123,911	6,697	10,832	3,810	145,250
Gross receivables	127,789	161,102	10,832	3,810	303,533
Less: allowance for uncollectibles	(86,366)	(443)	-	-	(86,809)
Total receivables, net	<u>\$ 41,423</u>	<u>\$ 160,659</u>	<u>\$ 10,832</u>	<u>\$ 3,810</u>	<u>\$ 216,724</u>
Receivables - Business-type Activities	SCVMC	Valley Health Plan	Nonmajor Enterprise Funds	Total Business-type Activities	
Patient accounts receivable	\$ 757,099	\$ -	\$ -	\$ 757,099	
Other	294	11,232	97	11,623	
Gross receivables	757,393	11,232	97	768,722	
Less allowance for uncollectibles	(460,728)	-	-	(460,728)	
Total receivables, net	<u>\$ 296,665</u>	<u>\$ 11,232</u>	<u>\$ 97</u>	<u>\$ 307,994</u>	

Net loan receivables from housing programs in the amount of \$154,405 are not expected to be collected within the subsequent year. The other receivables of General Fund in the amount of \$123,911 represent receivables of various County departments and a significant portion of the balances were allowed for at year-end.

At June 30, 2019, the General Fund’s due from other governmental agencies of \$349,351 is net of allowances for uncollectible accounts in the amount of \$31,572. Included in due from governmental agencies are agreements with the former Milpitas Redevelopment Agency. In June 2003, the Milpitas Redevelopment Agency (the MRDA) entered into an agreement to purchase and sell approximately 35 acres of Elmwood surplus land in the amount of (1) \$135,000 payable in installments over a 20-year period; (2) the aggregate sum of the developer negotiated value for all parcels comprising the property; and (3) 10 years of additional payments, estimated at \$3,500 per year, negotiated under the Sales and Use Tax Sharing Agreement based on 50% of the sales tax revenue generated by the additional redevelopment project area together with the Elmwood commercial area. In August 2003, the County approved the agreement with KB Home South Bay, Inc. (KB Home) for the base land value of \$57,750 (developer negotiated value) enabling the County’s disposition of the Elmwood surplus lands and the MRDA’s purchase and re-sale of the property.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2019
(Dollars in thousands)

(4) Receivables (Continued)

On June 28, 2011, Assembly Bill X1 26 (AB X1 26) was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. As such the obligation of MRDA transferred to the Successor Agency to the Milpitas Redevelopment Agency and the enforceable obligation was approved by its Oversight Board and updated to increase the additional payments by another 2 years through 2033. The following table shows the estimated cash flows related to the sale of the Elmwood surplus lands:

Fiscal year ending June 30,	Developer	Other	Milpitas Redevelopment Agency		Total
	Negotiated Value		Installment Payments	Additional Payments	
From Fiscal Year 2018 and prior	\$ 57,750	\$ 419	\$ 85,000	\$ -	\$ 143,169
2019	-	-	6,000	-	6,000
2020	-	-	6,000	-	6,000
2021	-	-	6,000	-	6,000
2022	-	-	6,000	-	6,000
2023	-	-	6,000	-	6,000
2024	-	-	-	3,500	3,500
2025-2029	-	-	-	17,500	17,500
2030-2034	-	-	-	14,000	14,000
Total	57,750	419	115,000	35,000	208,169
Less amount received prior to June 30, 2018	(57,750)	(419)	(85,000)	-	(143,169)
Receivable at June 30, 2018	-	-	30,000	35,000	65,000
Less amount received during current year	-	-	(6,000)	-	(6,000)
Receivable at June 30, 2019	\$ -	\$ -	\$ 24,000	\$ 35,000	\$ 59,000

At June 30, 2019, the County's General Fund receivable balance of \$59,000 represents the remaining estimated future cash flow related to the sale of the Elmwood surplus lands. During the year ended June 30, 2019, the County recognized proceeds from the sale in the amount of \$6,000 as revenue in the General Fund. At June 30, 2019, the deferred inflows of resources balance related to this balance is \$59,000.

Deferred Inflows of Resources – Unavailable Revenue

Governmental funds report deferred inflows of resources in connection with due from other governmental agencies and other receivables for revenues not considered available to liquidate liabilities of the current period. At June 30, 2019, the deferred inflows of resources balance consist of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Due from other governmental agencies	\$ 83,632	\$ -	\$ 83,632
Other receivables	2,691	154,405	157,096
Total deferred inflows of resources	\$ 86,323	\$ 154,405	\$ 240,728

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(5) Interfund Transactions

Interfund receivables, payables, and transfers as of and for the fiscal year ended June 30, 2019, by individual fund/fund type are summarized as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	SCVMC	\$ 152,993
General Fund	Internal Service Funds	1,125
General Capital Improvement	Nonmajor Governmental Funds	16,000
Nonmajor Governmental Funds	Nonmajor Governmental Funds	6,296
Agency Funds	Agency Funds	26,750
		\$ 203,164

The General Fund is due \$152,993 from SCVMC for working capital and \$1,125 from Internal Service Funds to reimburse for costs incurred. The General Capital Improvement Fund is due \$16,000 to reimburse costs incurred for capital improvement regarding healthcare facilities acquisition. In addition, the interfund balances of \$6,296 between the Nonmajor Governmental Funds and \$26,750 between Agency Funds represent current borrowings for working capital expected to be repaid during the following year.

All interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Advances to/from other funds:

In February 2013, the Board approved an interfund loan from the General Fund to the Child Support nonmajor special revenue fund for tenant improvements in the amount of \$1,000 to be repaid over the ten-year term of the lease. The actual amount of the loan was \$693. The terms of the loan include a maturity of June 30, 2023 and interest is based on the quarterly rate of return of the County Commingled Pool. At June 30, 2019, the advance balance was \$260.

In August 2017, the Board approved an interfund loan of \$21,300 from the General Fund to the Roads nonmajor special revenue fund for the repair of roads damaged by storms. The terms of the loan include a maturity of December 31, 2027 and interest is based on the quarterly rate of return of the County Commingled Pool. At June 30, 2019, the advance balance was \$20,439.

In August 2017, the Board approved an interfund loan of \$3,000 from the General Fund to the Airport nonmajor enterprise fund for pavement maintenance at Reid-Hillview and San Martin Airports. The terms of the loan include a maturity of December 31, 2027 and interest is based on the quarterly rate of return of the County Commingled Pool. At June 30, 2019, the advance balance was \$3,096.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2019
(Dollars in thousands)

(5) Interfund Transactions (Continued)

Transfer in/out between funds:

The following schedule summarizes the County's transfer activities:

Transfer From	Transfer To	Amount	Purpose
Between Governmental and Business-type Activities:			
General Fund	SCVMC	\$ 45,768	Transfer funds for subsidy.
General Fund	SCVMC	6,376	Transfer subsidy funds for Technology Services and Solutions (TSS) Department cost for O'Connor Hospital (OCH)
General Fund	SCVMC	1,894	Transfer subsidy funds for TSS cost for St. Louie Hospital (SLH)
General Fund	SCVMC	1,109	Transfer fund distribution of Public Safety Realignment 2011 - AB 109 (Local Community Correction)
General Fund	VHP	188	Transfer funds for payment of retiree benefits.
General Fund	VHP	1,224	Transfer funds for Primary Care Access Pilot Program
General Fund	VHP	26	Transfer funds for Diabetes Prevention Program
General Fund	Nonmajor Enterprise Fund	9	Transfer funds for payment of retiree benefits.
General Fund	Nonmajor Enterprise Fund	50	Transfer funds for the San Martin Hall improvements.
General Fund	Nonmajor Enterprise Fund	191	Transfer funds for the Eastridge Little League Ballfield repairs.
General Fund	Nonmajor Enterprise Fund	12	Transfer funds to cover rent costs for the animal rescue clinic.
SCVMC	General Fund	897	Transfer funds for community health
SCVMC	General Capital Improvement	10,000	Transfer for landscaping of new building.
SCVMC	Internal Service Fund	80,221	Transfer funds for TSS expenses.
SCVMC	Internal Service Fund	6,734	Transfer TSS capital assets.
General Capital Improvement	SCVMC	4,917	Transfer current assets received from the acquisition of OCH. (Reported as special item)
General Capital Improvement	SCVMC	2,626	Transfer current assets received from the acquisition of SLH. (Reported as special item)
Nonmajor Governmental Fund	SCVMC	4,995	Transfer funds for capital projects.
Subtotal: Between Governmental and Business-type Activities:		167,237	
Between Funds within the Governmental or Business-type Activities*:			
General Fund	Internal Service Fund	836	Transfer funds for payment of retiree benefits.
		23,918	Transfer funds for TSS expenses.
		<u>24,754</u>	
General Fund	General Capital Improvement	183,568	Transfer funds to finance Facilities and Fleet Department capital projects.
		154	Transfer fund distribution of Public Safety Realignment 2011-AB109 (Local Community Correction)
		<u>183,722</u>	
General Fund	Nonmajor Governmental Fund	51	Transfer fund for special program for library.
		68	Transfer funds to the household waste program.
		85	Transfer funds for school crossing guard project.
		138	Transfer funds to pay for expenditures of the tobacco program.
		8,982	Transfer for funding operations for the Intellectual and Developmental Disabilities (IDD) Affordable Housing.
		100	Transfer Fund for the Homestead Safe Roads To School Program.
		224	Transfer funds for the Park Alviso expenditures.
		1,076	Transfer funds for payment of retiree benefits.
		250	Transfer fund to Roads Trash Capture System for the Clean Water Program.
		15	Transfer funds for employee service awards.
		13,220	Transfer funds for bond refunding.
		35	Transfer funds for the expenditures incurred for the Casa Loma Fire.
		10,000	Transfer funds for the All Inclusive Playground Grant.
		<u>34,244</u>	
General Capital Improvement	General Fund	930	Transfer Energy Renewable funds.
Nonmajor Governmental Fund	General Fund	668	Transfer funds to pay for debt service.
		166	Transfer fund for specified ongoing operations.
		105,201	Transfer funds for planning, administrative, and program costs for the mental health services programs.
		<u>106,035</u>	
Nonmajor Governmental Fund	General Capital Improvement	210,000	Transfer bond proceeds to reimburse for the healthcare facilities acquisitions.
		173,980	Transfer bond proceeds for the Tasman property purchase.
		5,312	Transfer NCREB bond proceeds for capital projects.
		1,000	Transfer for the Hamlin Court North County Cold Weather Shelter Program (CWSP).
		<u>390,292</u>	
Nonmajor Governmental Fund	Nonmajor Governmental Fund	4,842	Transfer funds for Parks capital projects.
		120	Transfer funds to Environmental Health Department to enable the Household Hazardous Waste Program.
		41,328	Transfer funds for the reimbursements of projects funded by Housing General Obligation Bonds.
		<u>46,290</u>	
Subtotal: Between Funds within the Governmental or Business-type Activities:		786,267	
Total Transfers:		\$ 953,504	

*These transfers were eliminated in the consolidation, by column, for the Governmental and Business-type activities.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(6) Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance, July 1, 2018	Additions	Reductions/ Adjustments	Transfers	Balance, June 30, 2019
Governmental activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 297,969	\$ 50,342	\$ -	\$ 70,425	\$ 418,736
Construction in progress	344,965	324,905	-	(272,320)	397,550
Total capital assets, not being depreciated	<u>642,934</u>	<u>375,247</u>	<u>-</u>	<u>(201,895)</u>	<u>816,286</u>
<i>Capital assets, being depreciated:</i>					
Infrastructure	413,937	-	-	40,620	454,557
Buildings, easements and improvements	2,712,552	117,844	(6,473)	157,391	2,981,314
Equipment, software and vehicles	275,965	17,897	(9,859)	26,945	310,948
Total capital assets, being depreciated	<u>3,402,454</u>	<u>135,741</u>	<u>(16,332)</u>	<u>224,956</u>	<u>3,746,819</u>
<i>Less accumulated depreciation for:</i>					
Infrastructure	(186,975)	(16,721)	-	(1,781)	(205,477)
Buildings, easements and improvements	(1,018,172)	(95,776)	5,078	(1,689)	(1,110,559)
Equipment, software and vehicles	(201,550)	(26,656)	9,083	(7,973)	(227,096)
Total accumulated depreciation	<u>(1,406,697)</u>	<u>(139,153)</u>	<u>14,161</u>	<u>(11,443)</u>	<u>(1,543,132)</u>
Total capital assets, being depreciated, net	<u>1,995,757</u>	<u>(3,412)</u>	<u>(2,171)</u>	<u>213,513</u>	<u>2,203,687</u>
Governmental activities, capital assets, net	<u>\$ 2,638,691</u>	<u>\$ 371,835</u>	<u>\$ (2,171)</u>	<u>\$ 11,618</u>	<u>\$ 3,019,973</u>
Business-type activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 3,411	\$ 24,778	\$ -	\$ -	\$ 28,189
Construction in progress	29,848	35,608	-	(31,070)	34,386
Total capital assets, not being depreciated	<u>33,259</u>	<u>60,386</u>	<u>-</u>	<u>(31,070)</u>	<u>62,575</u>
<i>Capital assets, being depreciated:</i>					
Buildings and improvements	29,742	33,168	-	-	62,910
Equipment and vehicles	309,585	2,019	(6,446)	8,869	314,027
Total capital assets, being depreciated	<u>339,327</u>	<u>35,187</u>	<u>(6,446)</u>	<u>8,869</u>	<u>376,937</u>
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(17,062)	(1,034)	-	-	(18,096)
Equipment and vehicles	(238,154)	(27,056)	6,356	10,583	(248,271)
Total accumulated depreciation	<u>(255,216)</u>	<u>(28,090)</u>	<u>6,356</u>	<u>10,583</u>	<u>(266,367)</u>
Total capital assets, being depreciated, net	<u>84,111</u>	<u>7,097</u>	<u>(90)</u>	<u>19,452</u>	<u>110,570</u>
Business-type activities, capital assets, net	<u>\$ 117,370</u>	<u>\$ 67,483</u>	<u>\$ (90)</u>	<u>\$ (11,618)</u>	<u>\$ 173,145</u>

During the year ended June 30, 2019, SCVMC transferred capital assets of \$12,858 to the governmental activities and another \$6,734 to the internal service funds. SCVMC also received capital assets of \$7,974 from the governmental activities related to the healthcare facilities acquisition.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(6) Capital Assets (Continued)

Capital asset activity for the Housing Authority for the fiscal year ended June 30, 2019, was as follows:

	Balance, July 1, 2018	Additions	Reductions/ Adjustments	Balance, June 30, 2019
<i>Capital assets, not being depreciated:</i>				
Land	\$ 104,180	\$ -	\$ -	\$ 104,180
Construction in progress	998	1,143	(31)	2,110
Total capital assets, not being depreciated	<u>105,178</u>	<u>1,143</u>	<u>(31)</u>	<u>106,290</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	84,800	232	-	85,032
Furniture and equipment	4,284	1,233	13	5,530
Total capital assets, being depreciated	<u>89,084</u>	<u>1,465</u>	<u>13</u>	<u>90,562</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(44,734)	(2,653)	-	(47,387)
Furniture and equipment	(3,939)	(195)	-	(4,134)
Total accumulated depreciation	<u>(48,673)</u>	<u>(2,848)</u>	<u>-</u>	<u>(51,521)</u>
Total capital assets, being depreciated, net	<u>40,411</u>	<u>(1,383)</u>	<u>13</u>	<u>39,041</u>
Housing Authority's business-type activities	145,589	<u>\$ (240)</u>	<u>\$ (18)</u>	145,331
Housing Authority's discrete component units' capital assets, as of December 31, 2017 and 2018	<u>378,428</u>			<u>387,269</u>
Housing Authority capital assets, net	<u>\$ 524,017</u>			<u>\$ 532,600</u>

A copy of each of the Housing Authority's component units' separately issued audited financial statements can be obtained from the Housing Authority's management.

Capital asset activity for the FIRST 5 for the fiscal year ended June 30, 2019, was as follows:

	Balance, July 1, 2018	Additions	Reductions/ Adjustments	Balance, June 30, 2019
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,358	\$ -	\$ -	\$ 2,358
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	4,395	-	-	4,395
Furniture and equipment	277	-	-	277
Total capital assets, being depreciated	<u>4,672</u>	<u>-</u>	<u>-</u>	<u>4,672</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(2,831)	(217)	-	(3,048)
Furniture and equipment	(277)	-	-	(277)
Total accumulated depreciation	<u>(3,108)</u>	<u>(217)</u>	<u>-</u>	<u>(3,325)</u>
Total capital assets, being depreciated, net	<u>1,564</u>	<u>(217)</u>	<u>-</u>	<u>1,347</u>
FIRST 5 capital assets, net	<u>\$ 3,922</u>	<u>\$ (217)</u>	<u>\$ -</u>	<u>\$ 3,705</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2019
(Dollars in thousands)

(6) Capital Assets (Continued)

Capital asset activity for the Health Authority for fiscal year ended June 30, 2019, was as follows:

	<u>July 1, 2018</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Transfers</u>	<u>June 30, 2019</u>
<i>Capital assets, not being depreciated:</i>					
Land	\$ 3,508	\$ -	\$ -	\$ -	\$ 3,508
Constuction in progress	<u>6,549</u>	<u>4,532</u>	<u>-</u>	<u>(10,453)</u>	<u>628</u>
Total capital assets, not being depreciated	<u>10,057</u>	<u>4,532</u>	<u>-</u>	<u>(10,453)</u>	<u>4,136</u>
<i>Capital assets, being depreciated:</i>					
Furniture and equipment	10,869	1,146	(3)	-	12,012
Buildings and improvements	6,995	1,166	(759)	9,866	17,268
Software	<u>10,657</u>	<u>98</u>	<u>-</u>	<u>587</u>	<u>11,342</u>
Total capital assets, being depreciated	<u>28,521</u>	<u>2,410</u>	<u>(762)</u>	<u>10,453</u>	<u>40,622</u>
<i>Less accumulated depreciation for:</i>					
Furniture and equipment	(9,398)	(846)	592	-	(9,652)
Buildings and improvements	(908)	(608)	167	-	(1,349)
Software	<u>(4,003)</u>	<u>(2,362)</u>	<u>-</u>	<u>-</u>	<u>(6,365)</u>
Total accumulated depreciation	<u>(14,309)</u>	<u>(3,816)</u>	<u>759</u>	<u>-</u>	<u>(17,366)</u>
Total capital assets, being depreciated, net	<u>14,212</u>	<u>(1,406)</u>	<u>(3)</u>	<u>10,453</u>	<u>23,256</u>
Health Authority capital assets, net	<u>\$ 24,269</u>	<u>\$ 3,126</u>	<u>\$ (3)</u>	<u>\$ -</u>	<u>\$ 27,392</u>

Depreciation

Depreciation expense was charged to governmental functions for the year ended June 30, 2019, as follows:

General government	\$ 103,223
Public protection	7,718
Public ways	13,978
Health and sanitation	568
Public assistance	58
Education	690
Recreation	4,186
Amount reported in the internal service funds	<u>8,732</u>
Total depreciation expense - governmental functions	<u>\$ 139,153</u>

Depreciation expense was charged to the business-type functions for the year ended June 30, 2019 as follows:

SCVMC	\$ 19,495
Valley Health Plan	8,006
Airport	496
Sanitation District	<u>93</u>
Total depreciation expense - business-type functions	<u>\$ 28,090</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(6) Capital Assets (Continued)

Capital Projects Commitments

As of June 30, 2019, SCVMC and the Airport have active construction projects that include construction and improvements projects for SCVMC and infrastructure and facility improvement of airport projects.

The County’s commitments for business-type activities as of June 30, 2019, are as follows:

Projects	Expended to June 30, 2019	Committed as of June 30, 2019
SCVMC Projects	\$ 30,895	\$ 8,906
Airport Projects	3,491	70
Total	\$ 34,386	\$ 8,976

Nonmajor governmental funds (Special Revenue and Capital Projects Funds) also have active construction projects as of June 30, 2019. They are as follows:

- Road projects include: road, highway and bridge repair, maintenance and improvements; neighborhood protection projects; spot safety projects; and pedestrian and bicycle route improvements.
- Parks projects include: Martial Cottle Park development; Motorcycle Park site plan implementation; Calero & Rancho San Vicente Trails master plan implementation; Grant Ranch historic building rehabilitation; and improvement to County’s parks facilities.
- General capital projects include: construction, design and development of correctional and SCVMC facilities; construction design and development of Vietnamese American Service Center and South County Animal Shelter; improvements at Tasman Campus; repair, rehabilitation and improvement of County buildings.

The County’s governmental activities commitments at June 30, 2019, are as follows:

Projects	Expended to June 30, 2019	Committed as of June 30, 2019
Road projects	\$ 84,037	\$ 6,721
Parks projects	27,841	16,002
General capital projects	285,672	126,956
Total	\$ 397,550	\$ 149,679

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(7) Capital Leases

The County leases certain vehicles and equipment, obtained under various lease financing agreements. The leases expire at various times through fiscal year 2022. As of June 30, 2019, the governmental activities' capital assets and accumulated depreciation under capital leases are:

<u>Description</u>	
Equipment and vehicles	\$ 3,408
Less accumulated depreciation	<u>(2,787)</u>
Net capital assets	<u>\$ 621</u>

The future minimum lease payments under governmental activities capital leases are:

<u>Fiscal year ending June 30,</u>	
2020	713
2021	44
2022	<u>44</u>
Total	801
Amount representing interest rates from 2.03% to 2.92%	<u>(14)</u>
Present value of future minimum lease payments	<u>\$ 787</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2019
(Dollars in thousands)

(8) Long-Term Liabilities

As of June 30, 2019, outstanding long-term obligations consisted of the following:

<u>Type of indebtedness (purpose)</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2019</u>
Governmental Activities:					
2007 Taxable Pension Funding Bonds	8/1/19 - 8/1/36	5.98% - 6.11%	\$5,382 - \$51,560	\$ 389,485	\$ 352,380
2009 Series A General Obligation Bonds	8/1/2019	5.00%	\$2,800	350,000	2,800
2013 Series B General Obligation Bonds	8/1/19 - 8/1/43	3.00% - 5.00%	\$8,835 - \$29,340	490,000	458,855
2017 Series C General Obligation Bonds	8/1/19 - 8/1/39	3.00% - 5.00%	\$3,730 - \$28,180	290,510	284,075
2017 Series A Housing General Obligation Bonds	8/1/19 - 8/1/47	2.00% - 3.55%	\$1,115 - \$55,215	250,000	201,490
Direct Financing - 2016 New Clean Renewable Energy Bonds	10/1/19 - 10/1/30	3.87%	\$2,290 - \$2,456	33,000	28,464
Financing Authority:					
2008 Series M Lease Revenue Bonds	5/15/20 - 5/15/35	(1)	\$5,200 - \$8,300	143,105	106,000
2011 Series A Lease Revenue Bonds	2/1/20 - 2/1/26	5.90%	\$1,002 - \$1,393	20,368	8,502
2011 Series B Lease Revenue Bonds	2/1/20 - 2/1/26	4.91%	\$262 - \$282	3,639	1,903
2012 Series A Lease Revenue Bonds	2/1/20 - 2/1/24	4.00% - 5.00%	\$1,811 - \$2,180	19,316	9,986
2014 Series O Lease Revenue Bonds	5/15/20 - 5/15/23	3.00% - 4.00%	\$1,335 - \$1,490	11,715	5,660
2015 Series P Lease Revenue Bonds	5/15/20 - 5/15/31	5.00%	\$5,490 - \$9,400	102,435	87,475
2016 Series Q Lease Revenue Bonds	5/15/20 - 5/15/37	2.25% - 5.00%	\$3,740 - \$18,315	168,345	162,510
2016 Series A Lease Revenue Bonds	11/15/23 - 11/15/25	3.00% - 5.00%	\$13,265 - \$14,620	41,810	41,810
2018 Series A Lease Revenue Bonds Refunding	11/15/19 - 11/15/22	5.00%	\$12,785 - \$14,795	55,090	55,090
2018 Series A Lease Revenue Bonds	04/01/20-04/01/44	3.00% - 5.00%	\$3,650 - \$10,085	164,355	164,355
2019 Series A Lease Revenue Bonds	05/01/20 - 05/01/49	3.00% - 5.00%	\$545 - \$14,705	261,100	261,100
2019 Series A Lease Revenue Bonds Taxable	05/01/20 - 05/01/22	2.00% - 2.10%	\$4,575 - \$6,485	16,080	16,080
Silicon Valley Tobacco Securitization Authority:					
Tobacco Settlement Asset-Backed Bonds	6/1/36 - 6/1/56	5.63% - 6.85%	\$11,339 - \$43,604	102,030	102,030
Total governmental activities				<u>\$ 2,912,383</u>	<u>\$ 2,350,565</u>
Business-Type Activities					
SCVMC:					
Financing Authority:					
2012 Series A Lease Revenue Bonds	2/1/2020 - 2/1/24	4.00% - 5.00%	\$6,339 - \$7,630	\$ 67,604	\$ 34,949
Airport:					
ABAG Series 2002-1 Lease Revenue Bonds	7/1/19 - 7/1/32	5.00%	\$190 - \$355	6,780	3,710
Total business-type activities				<u>\$ 74,384</u>	<u>\$ 38,659</u>

⁽¹⁾ Variable rate, 1.46% effective as of June 30, 2019.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2019:

	Balance June 30, 2018	Additions	Retirements	Balance June 30, 2019	Amounts Due Within One Year
Governmental activities:					
Lease Revenue Bonds	\$ 514,504	\$ 496,625	\$ (90,658)	920,471	\$ 41,760
Unamortized premium	40,412	41,625	(7,472)	74,565	5,721
Tobacco Settlement asset-Backed Bonds	102,030	-	-	102,030	-
Accreted interest on capital appreciation bonds	96,362	11,896	-	108,258	-
Taxable Pension Funding Bonds	357,548	-	(5,168)	352,380	5,382
Accreted interest on capital appreciation bonds	60,900	7,238	(4,747)	63,391	5,608
General Obligation Bonds	1,012,400	-	(65,180)	947,220	65,765
Unamortized premium	70,229	-	(3,067)	67,162	3,069
Direct Financing - New Clean Renewable Energy Bonds	30,739	-	(2,275)	28,464	2,290
Subtotal governmental bonds	<u>2,285,124</u>	<u>557,384</u>	<u>(178,567)</u>	<u>2,663,941</u>	<u>129,595</u>
Capital Lease Obligations (Note 7)	1,794	-	(1,007)	787	701
Accrued litigation liability	7,500	700	-	8,200	-
Insurance claims (Note 13)	172,735	36,463	(26,786)	182,412	41,649
Pollution Remediation Obligations (Note 15)	12,830	910	-	13,740	-
Accrued vacation & sick leave	174,184	143,044	(129,857)	187,371	20,933
Total governmental activities	<u>\$ 2,654,167</u>	<u>\$ 738,501</u>	<u>\$ (336,217)</u>	<u>\$ 3,056,451</u>	<u>\$ 192,878</u>
Business-type activities:					
SCVMC Lease Revenue Bonds	\$ 40,985	-	\$ (6,036)	34,949	\$ 6,339
Unamortized premium	4,818	-	(862)	3,956	864
Subtotal SCVMC bonds	<u>45,803</u>	<u>-</u>	<u>(6,898)</u>	<u>38,905</u>	<u>7,203</u>
Airport Lease Revenue Bonds	3,890	-	(180)	3,710	190
Unamortized discount	(12)	-	1	(11)	(1)
Subtotal Airport bonds	<u>3,878</u>	<u>-</u>	<u>(179)</u>	<u>3,699</u>	<u>189</u>
Accrued vacation & sick leave	92,007	85,585	(82,230)	95,362	18,712
Total business-type activities	<u>\$ 141,688</u>	<u>\$ 85,585</u>	<u>\$ (89,307)</u>	<u>\$ 137,966</u>	<u>\$ 26,104</u>
Component Units:					
Housing Authority:					
Notes payable	\$ 973	\$ -	\$ -	\$ 973	\$ 20
Other blended component unit debt	62,182	-	(12,612)	49,570	2,199
Payment in lieu of taxes	3	-	-	3	-
Accrued vacation & sick leave	1,284	171	(15)	1,440	248
Interest payable	14,944	2,397	(11,977)	5,364	395
Housing Authority's business type activity	<u>79,386</u>	<u>\$ 2,568</u>	<u>\$ (24,604)</u>	<u>57,350</u>	<u>2,862</u>
Housing Authority's discrete component units'					
long-term obligations as of December 31, 2017 and 2018					
Notes, loans, and bonds payable	207,814			211,880	4,370
Long-term interest payable	14,781			10,521	2,320
Housing Authority's discrete component units	<u>222,595</u>			<u>222,401</u>	<u>6,690</u>
Total Housing Authority	<u>\$ 301,981</u>			<u>\$ 279,751</u>	<u>\$ 9,552</u>
FIRST 5:					
Accrued vacation & sick leave	\$ 217	\$ 49	\$ -	\$ 266	\$ -

A copy of each of the Housing Authority's component units separately issued audited financial statements can be obtained from the Housing Authority's management.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

(a) Governmental Activities

2007 Taxable Pension Funding Bonds

In July 2007, the County issued 2007 Taxable Pension Funding Bonds in the amount of \$389,485 to refinance a portion of the County's statutory obligations to make payments to the State of California Public Employees' Retirement System (CalPERS) for certain amounts arising as a result of retirement benefits accruing to County employees. The bonds were comprised of current interest bonds and capital appreciation bonds. The current interest bonds were issued for \$302,180 and bear fixed interest rates ranging from 5.344% to 6.001% and have a final maturity date of August 1, 2036. The capital appreciation bonds were issued for \$87,305 with interest rates ranging from 5.74% to 6.14% and have a final maturity date of August 1, 2029.

2009 Series A, 2013 Series B And 2017 Series C General Obligation Bonds

On November 4, 2008, the County voters approved Measure A – Hospital Seismic Safety and Medical Facilities authorizing the issuance of \$840,000 in general obligation bonds to rebuild and improve the seismically deficient medical facilities.

On May 27, 2009, the County issued 2009 Series A General Obligation Bonds in the amount of \$350,000. The bonds bear fixed interest rates ranging from 3.00% to 5.00% which are payable semi-annually commencing February 1, 2010 and have a final maturity of August 1, 2039. \$304,000 of the bonds were refunded with the issuance of 2017 Series C General Obligation Bonds. The remaining unrefunded portion have a final maturity date of August 1, 2019.

On March 6, 2013, the County issued 2013 Series B General Obligation Bonds in the amount of \$490,000. The bonds bear fixed interest rates ranging from 3.00% to 5.00% and have a final maturity on August 1, 2043.

On November 16, 2017, the County issued 2017 Series C General Obligation Bonds in the amount of \$290,510 to partially advance refund the outstanding 2009 Series A General Obligation Bonds of \$304,000. The bonds bear fixed interest rates ranging from 3.00% to 5.00% and have a final maturity date of August 1, 2039. At June 30, 2019, the outstanding defeased 2009 Series A General Obligation Bonds were \$304,000.

2017 Series A Housing General Obligation Bonds

On November 8, 2016, the County voters approved Measure A, the Affordable Housing Bond Measure, authorizing the issuance of \$950,000 in general obligation bonds to provide funding to address the growing needs for local affordable housing and to reduce and prevent homelessness.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

On November 9, 2017, the County issued the 2017 Series A Housing General Obligation Bonds in the amount of \$250,000. The bonds bear fixed interest rates ranging from 1.65% to 3.55% which are payable semi-annually commencing February 1, 2018 and have a final maturity of August 1, 2047.

Silicon Valley Tobacco Securitization Authority

In accordance with GASB Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the Silicon Valley Tobacco Securitization Authority (JPA) and the Santa Clara County Tobacco Securitization Corporation (Corporation) have been included in the basic financial statements as blended component units of the County. The Corporation borrowed from the JPA the proceeds of the Series 2007 Tobacco Settlement Asset-Backed Bonds issued by the JPA on January 12, 2007 for \$102,030 pursuant to a secured loan agreement. The Corporation then applied the loan proceeds to purchase the County's portion of its rights, title and interest in the Tobacco Settlement Revenues (TSRs) according to a purchase and sale agreement dated as of January 1, 2007 between the County and the Corporation (sale agreement). The Series 2007 Bonds are primarily secured by a portion of TSRs that are payable to the County and sold to the Corporation pursuant to the sale agreement.

The first Series A Capital Appreciation Bonds (CABs) were issued for \$43,604 with an interest rate of 5.63%, final turbo redemption date on June 1, 2031 and due date of June 1, 2036. The second Series A CABs were issued for \$11,338 with an interest rate of 5.68%, final turbo redemption date on June 1, 2033 and due date on June 1, 2041. The third Series A CABs were issued for \$13,618 with an interest rate of 5.70%, final turbo redemption date on June 1, 2036 and due date on June 1, 2047.

Series B CABs were issued for \$4,408 with an interest rate of 5.85%, final turbo redemption date on June 1, 2036 and due date of June 1, 2047. Series C CABs were issued for \$20,161 with an interest rate of 6.30%, final turbo redemption date on June 1, 2042 and due date of June 1, 2056. Series D CABs were issued for \$8,901 with an interest rate of 6.85%, final turbo redemption date on June 1, 2046 and due date of June 1, 2056.

On June 15, 2016, Fitch Ratings withdrew all ratings assigned to U.S. Tobacco Settlement Asset-Backed securities including the Authority's Tobacco Settlement Asset-Backed Bonds.

In the event of a decline in the tobacco settlement revenues for any reason, including the default or bankruptcy of a participating cigarette manufacturer, resulting in a decline in the tobacco settlement revenues and possible default on the Tobacco Securitization debt, neither the JPA, the County, nor Corporation has any liability to make up any such shortfall.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

Direct Financing - 2016 Taxable New Clean Renewable Energy Bonds

On October 22, 2015, in lieu of issuing \$33,000 of taxable New Clean Renewable Energy Bonds (NCREB) with a 15-year term to finance the acquisition and installation of six photovoltaic systems, the “renewable energy equipment,” that constitute “qualified renewable energy facilities” within the meaning of Section 54C of the Internal Revenue Code of 1986, the County sold and delivered to Banc of America Leasing & Capital, LLC, a Taxable NCREB Equipment Lease/Purchase Agreement. The aggregate principal component of rental payments total \$33,000, with a fixed interest rate of 3.87% and a final payment date of October 1, 2030. Interest payments total \$10,913, of which \$9,119 or 83.6% will be recouped from federal direct pay subsidies. Payments are paid from the County’s General Fund or other funds legally available for the Agreement.

Financing Authority

The Financing Authority was formed in 1994 by a joint exercise of powers agreement between the County and the Santa Clara County Central Fire Protection District (Central Fire). The Financing Authority commenced operations in the County with the issuance of bonds pursuant to the Marks-Roos Local Bond Pooling Act of 1985. The County leases to, and then leases back from, the Financing Authority the projects financed along with the real property on which they are situated.

2008 Series A Lease Revenue Bonds - On February 14, 2008, the Financing Authority issued \$126,410 of 2008 Series A Lease Revenue Bonds to current refund a portion of outstanding 1997 Series A Lease Revenue Bonds. The 2008 Series A Bonds net proceeds and amounts available from the refunded bonds were used to establish a refunding escrow on the date of the issuance of the 2008 Series A Lease Revenue Bonds. The 1997 Series A Lease Revenue Bonds in the amount of \$131,415 were redeemed on March 17, 2008 and have been removed from the County’s basic financial statements. The 2008 Series A Lease Revenue Bonds bear fixed interest rates ranging from 3.00% to 5.00% and have a final maturity date of November 15, 2022. The remaining outstanding principal was fully repaid and refunded through the issuance of 2018 Series A Refunding Lease Revenue Bond on August 21, 2018.

2008 Series M Lease Revenue Bonds - On May 29, 2008, the Financing Authority issued \$143,105 of 2008 Series M Lease Revenue Bonds. The bond proceeds were used to refund the outstanding 2005 Series F and 2005 Series G Lease Revenue Bonds on June 4, 2008. The bonds initially bear variable interest based on the weekly interest rate as defined in the bond indenture and have a final maturity date of May 15, 2035.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

The Financing Authority obtained an irrevocable letter of credit as a credit facility with Bank of America, N.A. The letter of credit is set to expire on August 13, 2021. Any unreimbursed draws made would convert to Bank Bonds with repayments made in accordance with the maturity schedule provided in the Trust Agreement and these Bank Bonds would bear interest at the Bank Rate which is up to 12% per annum. The Financing Authority is required to pay Bank of America, N.A. an annual commitment fee of 0.32% (0.35% before August 13, 2018) based on the outstanding principal amount of the bonds supported by the credit facility. For the year ended June 30, 2019, the Financing Authority paid an annual commitment fee in the amount of \$368.

Interest Rate Swap Related to the 2008 Series M Lease Revenue Bonds

In May 2005, the County through the Financing Authority issued 2005 Series F and 2005 Series G Lease Revenue Bonds (2005 Series F and G Bonds) in the amount of \$71,025 and \$71,025, respectively. The bonds were issued to provide funds for the Charcot Center, Valley Specialty Center and Morgan Hill Courthouse. In May 2008, the County through the Financing Authority issued lease revenue bonds 2008 Series M in the amount of \$143,105 to fully refund the 2005 Series F and G Bonds in the total amount of \$142,050. The difference of principal amount between the 2008 Series M Bonds and the refunded 2005 Series F and G Bonds in the amount of \$1,055 represents additional funding for the cost of issuance of 2008 Series M and was fully paid in fiscal year 2011. The payment schedule for the 2008 Series M starting fiscal year 2012 remains the same as the combined debt service schedule for the refunded 2005 Series F and G Bonds.

Objective of the Interest Rate Swaps. As a means to lower its borrowing costs, when compared with fixed-rate bonds at the time of issuance in May 2005, the Financing Authority entered into interest rate swap agreements with Citibank, N.A. (Citibank) in connection with its \$71,025 Series F and \$71,025 Series G variable rate lease revenue bonds. The intention of the swaps was to effectively change the Financing Authority's variable interest rates on the 2005 Series F and G Bonds to a synthetic fixed rate of 3.185%. The Financing Authority continued to hedge the 2008 Series M Bonds with the 2005 swap agreement.

Significant Terms. The bonds and related swap agreements both mature on May 15, 2035. The swaps' notional amount matches the outstanding principal amount of the 2008 Series M variable rate bonds. The swaps were entered into at the same time the 2005 Series F and G Bonds were issued in May 2005. Starting in fiscal year 2012, the notional value of the swaps declined as the principal amount of the associated debt began to be repaid. Under the swaps, the Financing Authority pays the counterparty a fixed payment of 3.185% and receives a variable payment computed as 56.5% of USD-LIBOR-BBA plus 0.33%.

Fair Value. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the swaps. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. The fair value hierarchy of the interest rate swap is Level 2. Because interest rates have declined since the execution of the swaps, the swaps have a negative fair value of \$15,642 as of June 30, 2019.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

Credit Risk. The aggregate fair value of the swaps represented the Financing Authority's credit exposure to the counterparties as of June 30, 2019. Should the counterparties fail to perform according to the terms of the swap contracts, the Financing Authority faces a maximum possible loss equivalent to the aggregate fair value of the swaps. At June 30, 2019, the Financing Authority was not exposed to credit risk because the swaps had a negative fair value of \$15,642. To mitigate the potential credit risk, the counterparties are required to post collateral, in the form of cash or federal government securities, if their credit ratings for long-term unsecured debt obligations fall below "A" by Moody's Investors Service or "A" by Standard and Poor's or Fitch Ratings. As of June 30, 2019, Citibank's ratings were Aa by Moody's, A by Standard and Poor's, and A by Fitch Ratings.

Basis Risk. The Financing Authority has chosen a variable index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Financing Authority is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. As a result of changing basis between LIBOR and the rate on the Financing Authority's bonds during the course of the year, the synthetic fixed rate for the fiscal year ended June 30, 2019, was 2.969%.

Termination Risk. The Financing Authority or Citibank may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may be terminated by the Financing Authority if Citibank's credit rating of long-term, unsecured, unenhanced senior debt obligations is withdrawn, suspended or falls below "Baa1" as determined by Moody's Investors Service, or "BBB+" as determined by Standard and Poor's, or fail to have any rated long-term, unsecured, unenhanced senior debt obligations. The swaps may be terminated by Citibank if the County's rating of long-term, unsecured, unenhanced senior debt obligations or lease obligations of the County is withdrawn, suspended or falls below "Baa3" as determined by Moody's Investors Service, or "BBB-" as determined by Standard and Poor's, or the County fails to have any rated long-term, unsecured, unenhanced senior debt obligations or lease obligations.

Counterparty Risk. The Financing Authority is exposed to counterparty risk, which is related to credit and termination risk. The termination of the swaps may result in a payment to the counterparty. The Financing Authority may also be exposed to counterparty risk in a high interest rate environment in the event the counterparty is unable to perform its obligations on a swap transaction leaving the Financing Authority exposed to the variable rates on the associated debt.

Interest Rate Risk. The swaps are structured to reduce the County's exposure to interest rate risk.

Rollover Risk. The Financing Authority is not exposed to rollover risk as the swaps matched the terms of the 2008 Series M Bonds starting in fiscal year 2012.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(8) Long-Term Liabilities (Continued)

Swap Payments and Associated Debt Service Payments. Using rates as of June 30, 2019, debt service requirements of the 2008 Series M bonds and net swap payments, assuming current interest rates remain the same for the term, were as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Year Ending June 30,	Principal	Variable Interest ⁽¹⁾	Net Swap Interest ⁽²⁾	Total Interest
2020	\$ 5,200	\$ 1,541	\$ 1,593	\$ 3,134
2021	5,350	1,465	1,514	2,979
2022	5,500	1,387	1,434	2,821
2023	5,675	1,306	1,350	2,656
2024	5,875	1,223	1,264	2,487
2025-2029	32,275	4,771	4,931	9,702
2030-2034	37,825	2,251	2,327	4,578
2035	8,300	111	115	226
	<u>\$ 106,000</u>	<u>\$ 14,055</u>	<u>\$ 14,528</u>	<u>\$ 28,583</u>

⁽¹⁾ Variable interest on the 2008 Series M is estimated using interest rate at June 30, 2019 of 1.46%.

⁽²⁾ Net swap interest on the 2008 Series M is estimated using USD-LIBOR-BBA rate at June 30, 2019 of 2.383%. Net swap interest at June 30, 2019, is calculated as follows: 3.185% minus (2.383% * 56.5% + 0.33%) equals to 1.509%.

Impact on Financial Statements. The impact of the interest rate swaps on the financial statements for the year ended June 30, 2019, is as follows:

	Deferred outflows of resources	Derivative instrument liabilities
Balance at July 1, 2018	\$ 11,330	\$ 11,330
Change in fair value	4,312	4,312
Balance at June 30, 2019	<u>\$ 15,642</u>	<u>\$ 15,642</u>

Derivative instrument liabilities of \$15,642 as of June 30, 2019 represent the fair value of the interest rate swap agreements and deferred outflows on resources of \$15,642 as of June 30, 2019 represent accumulated decreases in fair value of hedging derivatives.

2011 Series A & B Qualified Energy Conservation Bonds – On February 10, 2011 the County through the Financing Authority, issued the taxable 2011 Series A Lease Revenue Bonds, Qualified Energy Conservation Bonds (QECCB), in the amount of \$20,368 pursuant to an allocation to the County by the California Debt Limit Allocation Committee. On October 27, 2011, the Financing Authority issued another series of QECCB, 2011 Series B Lease Revenue Bonds, in the amount of \$3,639. Series A was to finance acquisition, installation, implementation and construction of solar electric generation systems on four County sites, cost of issuance and related fees and expenses. Series B was to fund lighting upgrades and lighting controls with energy efficient systems. Both series will mature on February 1, 2026.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

QECCBs are a form of taxable lease revenue bonds which receive a direct subsidy payment from the Federal government to help offset the cost of the borrowing. The subsidy is intended to promote qualified energy projects. The federal subsidy equates to approximately 70% of the interest cost of the financing. Effective March 1, 2013, due to sequester reductions, the federal interest subsidy was reduced. From October 1, 2017 to September 30, 2018, the sequestration rate was 6.6%. From October 1, 2018 to September 30, 2019, the sequestration rate was 6.2%. Absent of Congressional action, the sequester reductions will continue through and including federal fiscal year ended September 30, 2021. The sequester reduction percentage will vary between future years.

Debt service payments for the QECCBs are serviced by the General Fund. The actual savings will depend on the actual reduction in future utility costs as a result of the solar panel and energy efficient system projects.

2012 Series A Lease Revenue Bonds - On August 8, 2012, the Financing Authority issued \$86,920 of 2012 Series A Lease Revenue Bonds on behalf of the County and SCVMC. The bonds were issued to provide funds to finance various public capital improvements and projects related to the Santa Clara Valley Health and Hospital System Enterprise Core Health Care Information System. The 2012 Series A Lease Revenue Bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of February 1, 2024. Based on the usage of the bond proceeds, 22.2% and 77.8% of the bonds allocated to the governmental activities and SCVMC, respectively.

2014 Series O Lease Revenue Bonds - On April 22, 2014, the Financing Authority issued \$11,715 of 2014 Series O Lease Revenue Bonds. The bond proceeds include premiums of \$909 and County contributions of \$1,408, of which \$1,090 was deposited into the refunding escrow that were used to current refund the outstanding 2003 Series C Lease Revenue Bonds. The bonds bear fixed interest rates ranging from 3.00% to 4.00% and have a final maturity date of May 15, 2023.

2015 Series P Lease Revenue Bonds - On June 3, 2015, the Financing Authority issued \$102,435 of 2015 Series P Lease Revenue Bonds. The bond proceeds including part of the bond premium received from the issuance totaled to \$117,941 was deposited into the refunding escrow to advance refund the outstanding 2006 Series I Lease Revenue Bonds of \$113,140. The bonds bear fixed interest rates of 5.00% and have a final maturity date of May 15, 2031.

2016 Series Q Lease Revenue Bonds - On June 8, 2016, the Financing Authority issued \$168,345 of 2016 Series Q Lease Revenue Bonds. The bond proceeds including part of the bond premium received from the issuance totaled \$192,789 and were deposited into the refunding escrow to advance refund the outstanding 2007 Series K and 2008 Series L Lease Revenue Bonds of \$78,965 and \$101,890, respectively. The bonds bear fixed interest rates ranging from 2.25% to 5.00% and have a final maturity date of May 15, 2037.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

2016 Series A Lease Revenue Bonds - On September 20, 2016, the Financing Authority issued \$41,810 of 2016 Series A Lease Revenue Bonds. The bond proceeds, including bond premium of \$9,470 received from the issuance, and funds held by the Financing Authority of \$220, totaled to \$51,500, were deposited into the refunding escrow to fully refund the 1994 Series B Lease Revenue Bonds of \$51,500. The bonds bear fixed interest rates of 3.00% to 5.00% and have a final maturity date of November 15, 2025.

2018 Series A Refunding Lease Revenue Bonds - On August 21, 2018, the Financing Authority issued \$55,090 of 2018 Series A Refunding Lease Revenue Bonds. The bond proceeds, including part of the bond premium received from the issuance, and County contributions of \$13,649, totaled to \$74,016 and was deposited into the refunding escrow to pre-fund the outstanding principal of \$13,170 due on November 15, 2018 and fully refund the remaining 2008 Series A Lease Revenue Bonds of \$59,420. The bonds bear fixed interest rates of 5.00% with a final maturity date of November 15, 2022. The refunding achieved \$4,862 in gross debt service savings and net present value savings of \$4,685.

2018 Series A Lease Revenue Bonds - On September 26, 2018, the Financing Authority issued \$164,355 of 2018 Series A County Facilities Lease Revenue Bonds. The bond proceeds were used to finance the acquisition of four buildings for the Champion Point Campus. The bonds bear fixed interest rates ranging from 3.00% to 5.00% and have a final maturity date of April 1, 2044.

2019 Series A & Series A-Taxable Lease Revenue Bonds - On June 27, 2019, the Financing Authority issued \$261,100 and \$16,080, respectively, of 2019 Series A and Series A-Taxable County Facilities Lease Revenue Bonds. The bond proceeds were used to 1) finance the acquisition of all or a portion of (a) O'Connor Hospital in San Jose, California, and related interests and facilities, (b) Saint Louise Regional Hospital in Gilroy, California, and (c) De Paul Health Center in Morgan Hill, California, and related facilities (collectively, Acquired Healthcare Facilities), and 2) to finance the costs of certain capital improvements to, and equipping of, the Acquired Healthcare Facilities and SCVMC. The 2019 Series A Bonds bear fixed interest rates ranging from 3.00% to 5.00% and have a final maturity date of May 1, 2049. The 2019 Series A-Taxable Bonds bear fixed interest rates ranging from 2.00% to 2.10% and have a final maturity date of May 1, 2022.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

(b) Business-type Activities

SCVMC - Financing Authority

The Governmental Activities section of this note at (a) describes the business-type activities portions of the Financing Authority's Lease Revenue Bonds.

Airport

On July 1, 2002, the Association of Bay Area Governments (ABAG) issued Series 2002-1 Lease Revenue Bonds, in the amount of \$13,370. These bonds were issued to finance or refinance certain capital improvements within their geographical boundaries. On June 4, 2002, the County Board approved a resolution to enter into a lease agreement with ABAG for \$6,780 of this debt via a lease/leaseback arrangement of one or more properties to ABAG. The proceeds of the debt provided financing for the acquisition, construction, and renovation of certain capital improvements at the County's airports.

(c) Events of Default and Acceleration Clauses

General, the County is considered to be in default for nonpayment by the County of the interest on and principal of or redemption premium, if any, on any bonds when due and payable. In the event of the occurrence and continuance of an event of default, the trustee may, upon the written request of the bondholders of not less than a majority in aggregate principal amount or accreted value of the outstanding bonds shall, declare the principal an accreted value of and interest on all outstanding bonds to be due and payable immediately.

(d) Repayment Requirements

As of June 30, 2019, the debt service requirements to maturity and the fund types from which principal payments will be made are as follows, excluding capital lease obligations, accrued litigation liability, insurance claims liabilities, pollution remediation obligations, and accrued vacation and sick leave.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(8) Long-Term Liabilities (Continued)

Governmental Activities

Fiscal year ending June 30:	Lease Revenue Bonds (1)		Tobacco Securitization Asset-Backed Bonds		General Obligation Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 41,760	\$ 33,042	\$ -	\$ -	\$ 65,765	\$ 35,128
2021	41,940	32,921	-	-	68,770	33,370
2022	43,756	31,149	-	-	16,225	32,056
2023	45,667	29,290	-	-	17,975	31,233
2024	45,786	27,285	-	-	19,830	30,321
2025-2029	195,892	109,103	-	-	130,220	134,481
2030-2034	197,320	72,559	-	-	191,115	98,951
2035-2039	134,310	41,162	43,604	178,571	260,435	57,368
2040-2044	104,915	23,234	11,339	66,321	151,715	16,373
2045-2049	69,125	6,733	18,025	158,675	25,170	1,850
2050-2054	-	-	-	-	-	-
2055-2056	-	-	29,062	648,788	-	-
Total	\$ 920,471	\$ 406,478	\$ 102,030	\$ 1,052,355	\$ 947,220	\$ 471,131

Fiscal year ending June 30:	Taxable Pension Funding Bonds		Direct Financing - New Clean Renewable Energy Bonds	
	Principal	Interest	Principal	Interest
2020	\$ 5,382	\$ 23,112	\$ 2,290	\$ 1,057
2021	5,597	24,002	2,305	968
2022	5,761	24,984	2,319	879
2023	5,897	26,028	2,334	789
2024	6,008	27,136	2,349	698
2025-2029	30,999	154,444	11,971	2,111
2030-2034	152,106	70,324	4,896	190
2035-2037	140,630	13,214	-	-
Total	\$ 352,380	\$ 363,244	\$ 28,464	\$ 6,692

(1) Variable interest on the 2008 Series M Lease Revenue Bonds was estimated using interest rate at June 30, 2019 of 1.46%.

Taxable Pension Funding Bonds are serviced by future charges to County departments. Capital Lease Obligations are serviced by the South Santa Clara County Fire District and the General Fund. Accrued litigation liability, pollution remediation obligations, insurance claims liabilities, accrued vacation and sick leave, and governmental activities' share of net pension liability (Note 11) and net OPEB liability (Note 12) are typically liquidated by the General Fund.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(8) Long-Term Liabilities (Continued)

Business-type Activities

Fiscal year ending June 30:	SCVMC		Airport	
	Lease Revenue Bonds		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2020	\$ 6,339	\$ 1,598	\$ 190	\$ 181
2021	6,654	1,281	200	171
2022	6,988	948	210	161
2023	7,338	599	220	150
2024	7,630	305	230	139
2025-2029	-	-	1,335	505
2030-2033	-	-	1,325	137
Total	<u>\$ 34,949</u>	<u>\$ 4,731</u>	<u>\$ 3,710</u>	<u>\$ 1,443</u>

(e) Pledged Revenues for Bonds

The lease revenue bonds issued by the Financing Authority are payable by a pledge of revenues from the base rental payments payable by the County and SCVMC, pursuant to the Master Facility Lease Agreements between the County and the Financing Authority for the use of facilities acquired or constructed by the Financing Authority. Under California law, the County and SCVMC cannot make lease payments until the County and SCVMC have constructive use or occupancy of the property being financed. Once construction is completed, the leases act like direct financing leases with lease payments equal to debt service payments. Total debt service requirements remaining on the lease revenue bonds is \$1,366,629 payable through May 1, 2049. For the fiscal year ended June 30, 2019, the total lease payments made by the County and SCVMC totaled to \$50,135 and total debt service payments paid by the Financing Authority totaled to \$48,843.

The County's Series 2007 Tobacco Settlement Asset-Backed Bonds are secured by the pledge of future tobacco settlement revenues made by participating cigarette manufacturers to the County. Tobacco settlement revenues due to the County on and after January 1, 2026 have been pledged until June 1, 2056, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$1,154,385. The County did not receive any tobacco settlement revenues for the bonds nor made any debt service payments on these bonds during the fiscal year ended June 30, 2019.

The County's General Obligation Bonds are payable from pledged ad valorem property taxes until August 1, 2043, the final maturity dates of the bonds. The total principal and interest remaining on these bonds is approximately \$1,152,656. For the fiscal year ended June 30, 2019, the County collected \$42,540 in ad valorem property taxes and made total debt service payments in the amount of \$47,680 using taxes collected in current and previous years.

The County's Housing General Obligation Bonds are payable from pledged ad valorem property taxes until August 1, 2047, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$265,695. For the fiscal year ended June 30, 2019, the County collected \$57,786 in ad valorem property taxes and made total debt service payments in the amount of \$54,277.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2019
(Dollars in thousands)

(8) Long-Term Liabilities (Continued)

The Airport’s lease revenue bonds are secured by the pledge of revenues generated by the Airport and paid to ABAG as lease payments. The leases act like direct financing leases with lease payments received by ABAG equal to debt service payments made by the Airport. These revenues have been pledged until July 1, 2032, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$5,153. For the fiscal year ended June 30, 2019, the total principal and interest payment made by the Airport totaled \$364.

(f) Legal Debt Margin

As of June 30, 2019, the County’s legal debt limit (1.25% of the total assessed valuation) was \$6.04 billion. At June 30, 2019, the County has debt in the amount of \$0.95 billion applicable to the limit outstanding and the legal debt margin was \$5.09 billion.

(g) Housing Authority Long-term Obligations

Outstanding notes, loans, and bonds payable for the Housing Authority consisted of the following:

Type of indebtedness (purpose)	Maturity	Rates	Installments	Amount	June 30, 2019
Business-type activities - notes payable:					
City of San Jose (Morrone Gardens)	9/23/2024	4.00%	Deferred until Maturity	\$ 973	\$ 973
Other blended component unit notes, loans and bonds payable (as of December 31, 2018)					
AE Associates, Ltd.					4,452
Blossom River Associates, LP					10,739
Helzer Associates, LP					14,153
Klamath Associates, LP					1,055
Poco Way HDC, Inc.					14,500
Rotary Plaza/HACSC HDC, Inc.					1,224
San Pedro Gardens Ltd					1,555
S.P.G. Housing, Inc.					1,892
Subtotal					49,570
Discrete component units (as of December 31, 2018):					
Bascom HACSC Associates					12,110
Bendorf Drive, L.P.					15,095
Branham Lane					832
Clarendon Street, L.P.					5,381
Fairground Luxury Family Apartments, L.P.					38,994
Fairground Senior Apartments, L.P.					19,453
HACSC/Choices Family Associates					15,055
HACSC/Choices Senior Associates					10,681
Hermocilla LLC					1,419
Huff Avenue Associates					3,563
Julian Street Partners, L.P.					12,080
Laurel Grove Lane, L.P.					38,302
McCreery Avenue, L.P.					14,144
Opportunity Center Associates					5,848
Rincon Gardens Associates, L.P.					12,987
South Drive LLC					2,371
Willow/HACSC Associates					3,565
Subtotal					211,880
Total Housing Authority				\$	262,423

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(8) Long-Term Liabilities (Continued)

The debt service requirements to maturity for the Housing Authority’s business-type activity’s notes payable are as follows:

Fiscal year ending June 30:	Principal	Interest
2020	\$ 20	\$ 39
2021	-	39
2022	-	39
2023	-	39
2024	-	39
2025	953	9
Total	<u>\$ 973</u>	<u>\$ 204</u>

A copy of each of the Housing Authority’s blended and discretely presented component units’ separately issued audited financial statements can be obtained from the Housing Authority’s management.

(9) Healthcare Programs

(a) Santa Clara Valley Medical Center

Net Patient Revenues - The SCVMC provides a continuum of acute and outpatient care. The SCVMC grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered at the SCVMC, including estimated retroactive adjustments under reimbursement agreements due to future audits, reviews and investigations with federal and state government programs and other third-party payers (contractual allowances) and the uncollectible portion of patient service revenues (bad debts provision). Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Net patient service revenues are calculated for the fiscal year ended June 30, 2019, as follows:

Patient service revenues	\$ 5,208,761
Contractual allowances	(3,530,318)
Bad debts provision	<u>(13,321)</u>
Net patient service revenues	<u>\$ 1,665,122</u>

A substantial portion of the SCVMC’s patient service revenues are derived from services provided to patients eligible for benefits under the Medi-Cal and Medicare programs. Revenues from the Medi-Cal and Medicare programs represents approximately 63% and 16%, respectively, of net patient service revenue (excluding the effects of bad debts provision) for the fiscal year ended June 30, 2019. Reimbursement for services provided under these programs is currently based on various contractual arrangements.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(9) Healthcare Programs (Continued)

Third-Party Payers - The SCVMC has agreements with third-party payers that provide for reimbursement to the SCVMC at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the SCVMC's established rates and amounts reimbursed by third-party payers. Major third-party payers with whom such agreements have been established are Medicare, Medi-Cal, and the State of California through the Medi-Cal Hospital/Section 1115 Medicaid Waiver and Short-Doyle mental health programs. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. The SCVMC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

California's Section 1115 Medicaid Waiver (Waiver), titled the "Bridge to Health Care Reform" began in November 2010. The Waiver is intended to help sustain the State's Medicaid Program (known as Medi-Cal), test new innovations to help improve care and reduce costs, and to support the safety net in advance of health reform. Under the Waiver, payments for public hospitals are comprised of: 1) fee-for-service cost-based reimbursements for inpatient hospital services; 2) Disproportionate Share Hospital payments; 3) distribution from a pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP); 4) Delivery System Reform Incentive Program (DSRIP); and 5) the Low Income Health Program (LIHP). The non-federal share of these payments will be provided by the public hospitals, primarily through certified public expenditures, whereby the hospital would expend its local funding for services to draw down the federal financial participation.

The Bridge to Health Care Reform waiver expired October 31, 2015. On December 30, 2015, the Centers for Medicare and Medicaid Services (CMS) approved Medi-Cal 2020, a five-year renewal of California's Section 1115 Medicaid Waiver, which provides California public hospitals new federal funding through programs that are designed to shift the focus away from hospital-based and inpatient care, towards outpatient, primary and preventative care. A renewal of California's Medicaid Waiver was a fundamental component to public hospitals' ability to continue to successfully implement the Affordable Care Act (ACA) beyond the primary step of coverage expansion.

The Medi-Cal 2020 waiver features four new programs: (1) a pay-for-performance delivery system transformation and alignment program that is considered the successor to the 2010 Bridge to Reform waiver's DSRIP, known as PRIME (Public Hospital Redesign and Incentives in Medi-Cal); (2) Global Payment Program (GPP) for services to the uninsured in designated public hospital systems; (3) Whole Person Care Pilot Program which would be a county-based, voluntary program to target providing more integrated care for high-risk, vulnerable populations; and (4) Dental Transformation Incentive Program, an optional incentive program to increase the frequency and quality of dental care provided to children.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(9) Healthcare Programs (Continued)

Payments received under Medi-Cal 2020 Waiver's GPP are utilization based and not dependent on Certified Public Expenditures (CPEs). However, GPP claims are subject to State and federal audit and final reconciliation. SCVMC has established reserves for the uncertainty of future financial impact of potential audit and reconciliation adjustments. Revenues recognized under PRIME, GPP, and Whole Person Care Pilot Program were approximately \$51.3 million, \$133.0 million, and \$19.7 million, respectively, for the fiscal year ended June 30, 2019.

CMS's new Medicaid Managed Care Rule, which became effective on July 1, 2017, places new restrictions on how healthcare providers may receive supplemental payments in the Medicaid Managed Care context. The rule limits the ability of states to direct payments to healthcare providers unless certain conditions are met. Among the exceptions are payments tied to performance and payments that provide a pre-determined increase over contracted managed care rates. The Quality Incentive Program (QIP) and Enhanced Payment Program (EPP) were approved by CMS to replace programs that were eliminated as a result of the Medicaid Managed Care Rule.

Under QIP, payments are tied to the achievement of performance on a set of clinically established quality measures for Medi-Cal Managed Care enrollees. The program takes a pooled distribution approach with the other public hospitals, with a reconciliation at the end of the program year. Under EPP, a funding pool is created that will be used to supplement the base rates receive through Medi-Cal Managed Care contracts. Initial estimates were based on historical data, and final payment will be determined using actual fiscal year data reported to the State. For the fiscal year ended June 30, 2019, SCVMC recognized approximately \$47.1 million and \$190.8 million in revenues under QIP and EPP, respectively, of which \$11.1 million and \$93.0 million, respectively, were true-up revenues for the fiscal year ended June 30, 2018.

Transactions with VHP - The SCVMC received a total of \$291.9 million in fiscal year 2019 from VHP and is reported as a component of net patient service revenues on the Statement of Revenues, Expenses and Changes in Net Position.

Due from Other Governmental Agencies - As of June 30, 2019, the SCVMC recorded approximately \$469.5 million in due from other governmental agencies, which was mainly comprised of receivable of \$254.8 million, \$83.1 million, and \$46.5 million for the EPP, QIP, and GPP programs, respectively.

Due to Other Governmental Agencies - As of June 30, 2019, the SCVMC recorded approximately \$169.3 million in due to other governmental agencies, which was mainly comprised of \$151.2 million in unearned credits related to receipts under SNCP and AB915 programs and \$18.1 million related to receipts under the SB1732 program.

Charity Care - The SCVMC has a policy for providing charity care to patients who are otherwise unable to afford health care services. Generally, charity care recipients are those patients for which an indigency standard has been established and for which the patient qualifies. Inability to pay may be determined through an interview process by the SCVMC, by the Department of Revenue, or by an outside collection agency. Determination of charity care status may be made prior to or at the time of service, or any time thereafter.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2019
(Dollars in thousands)

(9) **Healthcare Programs (Continued)**

The total amount of such charity care provided by the SCVMC for the fiscal year ended June 30, 2019, based on the cost incurred to perform these services, is as follows:

Charity care, at cost	\$	55,456
Percentage of operating expenses		3%

Charity care at cost is calculated excluding the impact of other revenue received listed above.

(b) **Valley Health Plan**

Commercial Plan - The Valley Health Plan (VHP) is a health care service plan licensed pursuant to the Knox-Keene Health Care Service Plan Act of 1975, as amended, and the regulations promulgated there under (collectively, “Knox-Keene Act”). VHP was licensed in September 1985 for the purpose of providing comprehensive health care services on a prepaid basis to the County’s active and retired employees, the Santa Clara County Valley Transportation Authority’s active and retired employees, and other non-profit agencies which have a contractual relationship with the County. Two other groups – the Council on Aging and the In-Home Supportive Services started their coverage in July 2000 and September 2000, respectively. Under the Affordable Care Act, Valley Health Plan started to enroll members through the State (Covered California) beginning January 1, 2014.

Premium Revenues - Membership contracts are on a yearly basis subject to cancellation by the employer group or VHP upon 30 days written notice. Premiums are due either bi-weekly or monthly and are recognized as revenue during the period in which VHP is obligated to provide services to members. VHP receives both premium payments from Covered California individuals and subsidies from the federal government on a monthly basis.

Health Care Service Expense - Prior to July 1, 2013, VHP contracted with the SCVMC under a capitation arrangement for the provision of certain medical care services to its members. VHP compensates the SCVMC through this capitation agreement which was an agreed upon percentage of the total premiums. This arrangement subjected the SCVMC to the full risk of all contracted providers. Beginning July 1, 2013, VHP’s capitation agreement with the SCVMC only includes payments to SCVMC less the projected payments to other medical groups for the provision of certain medical care services to its member. These other provider groups are paid for services directly from VHP, therefore the risk shifts from the SCVMC to VHP. VHP compensates the SCVMC an agreed upon per member per month rate, while other medical groups are reimbursed on a fee-for service basis. Thus, both VHP and SCVMC share the risk for all incurred but not reported claims and thus, the liabilities are recorded in each fund accordingly. Effective July 1, 2014, VHP assumes all the risk for the Commercial Group population. In addition, VHP assumes all the risk for the Covered California population.

Medi-Cal Managed Care Plan - In December 1996, VHP received approval to participate in the State Department of Health Services’ Two-Plan Model for Medi-Cal managed care. VHP contracts with Medi-Cal prepaid health plans and providers to render medical services to eligible Medi-Cal beneficiaries. Beginning on July 1, 1998, VHP also provides coverage for the Healthy Families Program. As of February 2001, the County-Sponsored program, Healthy Kids, started its coverage with VHP. In addition, the plan started to provide coverage for Healthy Workers subscribers (IHSS) in April 2010.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2019
(Dollars in thousands)

(9) Healthcare Programs (Continued)

Capitation Revenue - Medi-Cal prepaid health plans (HMOs) contract with VHP to provide medical health care services to Medi-Cal enrollees. VHP is compensated on a fixed payment per member per month.

Capitation Expenses - VHP pays hospitals and various clinics a fixed amount per member per month to render medical health care services to its members. VHP pays all federally qualified health clinics on a fee-for-service basis for primary care services rendered to its Medi-Cal members.

Medical Incentive Pool - Under contract, VHP will reserve an agreed upon amount per member per month for each pool based on aid category. Eligibility for annual payment of pro rata shares of the reserve pools will be based on participating clinics meeting VHP designated target goals.

Stop-Loss Insurance - VHP entered into a stop-loss insurance agreement with an insurance company to limit losses on individual claims for its commercial members. Under the terms of this agreement, the insurance company will reimburse approximately 90 percent of the cost of each member's annual hospital services, in excess of a \$375 deductible, up to a maximum of \$2,000 less applicable deductible per member per contract year.

Malpractice Claims - There have been no malpractice claims asserted against VHP and no incidents occurring through June 30, 2019 that management believes would result in the assertion of claims against VHP.

(10) Net Position/Fund Balances

(a) Net Position Classifications

The government-wide and proprietary funds financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt, including debt related deferred outflows and inflows of resources that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position - This category consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted net position includes restrictions for parks, mental health, capital facilities, debt service, housing programs, roads, library, and other purposes.

Unrestricted Net Position - This category represents net position of the County not restricted for any project or purpose.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(10) Net Position/Fund Balances (Continued)

(b) *Fund Balances Classifications*

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily to the extent which the County is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2019, fund balances for government funds are comprised of the following:

Nonspendable Fund Balance - This category represents amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance - This category represents amounts that can be spent only for specific purposes stipulated by external parties, constitutionally or through enabling legislation.

Committed Fund Balance - This category represents amounts that can only be used for the specific purposes determined by a formal action of the County’s highest level of decision-making authority. Commitments may be changed or lifted only by the County taking the same formal action that imposed the constraint originally. The Board is the County’s highest level of decision making. The highest level of formal action to commit resources is the passage of ordinances.

Assigned Fund Balance - This category represents amounts intended to be used by the County for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the Board, (b) standing committees of the Board, or (c) the Director of Finance. Assignments are established by the Board through resolutions and delegation to the Director of Finance to set aside amounts to cover purchase orders, contracts, and other commitments for the expenditures of monies for budgetary purposes.

Unassigned Fund Balance - This category represents the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(10) Net Position/Fund Balances (Continued)

Fund balances for the governmental funds as of June 30, 2019, were distributed as follows:

	General Fund	General Capital Improvement Fund	Nonmajor Funds	Total
Nonspendable:				
Inventory	\$ 2,095	\$ -	\$ 596	\$ 2,691
Advance to other fund	23,795	-	-	23,795
Other assets	4,054	-	-	4,054
Subtotal	<u>29,944</u>	<u>-</u>	<u>596</u>	<u>30,540</u>
Restricted for:				
Child support program	-	-	2,500	2,500
Clerk recorder program	-	-	11,174	11,174
Debt service	-	-	149,130	149,130
Health and human services	101,164	-	-	101,164
Housing and community development programs	-	-	27,705	27,705
Law enforcement	70,705	-	-	70,705
Library services	-	-	51,723	51,723
Mental health services	-	-	134,125	134,125
Parks acquisition and development projects	-	-	376,758	376,758
Public ways and facilities	-	-	7,063	7,063
Stanford trails	-	-	11,110	11,110
Vector control programs	-	-	10,563	10,563
Other purposes	28,994	-	6,031	35,025
Total restricted	<u>200,863</u>	<u>-</u>	<u>787,882</u>	<u>988,745</u>
Committed to:				
County parks operations	-	-	35,515	35,515
Environmental health services	-	-	22,445	22,445
Fire protection services	-	-	28,500	28,500
General capital improvement projects	-	361,493	-	361,493
Public ways and facilities	-	-	484	484
Working capital	49,916	-	-	49,916
Education	6,655	-	-	6,655
Other purposes	15,649	-	584	16,233
Total committed	<u>72,220</u>	<u>361,493</u>	<u>87,528</u>	<u>521,241</u>
Assigned to:				
Fire protection services	-	-	63,024	63,024
Capital outlay	65,207	-	-	65,207
General liability program	8,200	-	-	8,200
Other purposes	23,112	-	-	23,112
Total assigned	<u>96,519</u>	<u>-</u>	<u>63,024</u>	<u>159,543</u>
Unassigned				
	640,958	-	(7,009)	633,949
Total	<u>\$ 1,040,504</u>	<u>\$ 361,493</u>	<u>\$ 932,021</u>	<u>\$ 2,334,018</u>

County's Contingency Reserve Policy. The Board adopted a contingency reserve policy that set the reserve at 5 percent of the General Fund's revenues, net of pass-through. The contingency reserve can be used to support costs on a one-time basis for unanticipated and unforeseen events as stated in the policy or to support ongoing costs as a financing mechanism, when presented with critical program initiatives that have a time requirement that cannot be deferred. As of June 30, 2019, the County has a balance in its contingency reserve in the amount of \$131,789 reported as part of the General Fund's unassigned fund balance.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(11) Pension Plans

(a) California Public Employees’ Retirement System – Defined Benefit Plans

Plan Description

All qualified permanent and probationary employees are eligible to participate in the County’s CalPERS defined benefit pension plans. The County participates in six plans with CalPERS as follows:

CalPERS Plan	Type of Plan	Participants
County Miscellaneous Plan	Agent multi-employer plan	County non-safety members ⁽¹⁾
County Safety Plan	Agent multi-employer plan	County safety members
Central Fire Miscellaneous Plan	Cost sharing plan	Central Fire non-safety members
Central Fire Safety Plan	Agent multi-employer plan	Central Fire safety members
Housing Authority Miscellaneous Plan	Agent multi-employer plan	Housing Authority members
Health Authority Miscellaneous Plan	Cost sharing plan	Health Authority members

⁽¹⁾ Includes non-Judge employees and retirees of the Superior Court of California. The Superior Court of California is not part of the County’s reporting entity as such the amounts disclosed for the County Miscellaneous Plan excludes amounts and allocations to the Superior Court of California. At June 30, 2019, the County’s proportionate share of this plan is 96.43%.

CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. Benefit provisions and other requirements are established by State statute, employer contract with CalPERS and by County resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are equal to the product of a benefit multiplier, the employee’s retirement age and final compensation. The cost of living adjustments for the CalPERS plans are applied as specified by the Public Employees’ Retirement Law. The California Public Employees’ Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. As such members who established CalPERS membership on or after January 1, 2013 are known as “PEPRA” members.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2019
(Dollars in thousands)

(11) Pension Plans (Continued)

The CalPERS' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	County Miscellaneous Plan		County Safety Plan	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2% @ 55, 2.5% @ 55	2% @ 62	2% @ 50, 3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life	Monthly for life
Retirement age	55-60	62	50	57
Required employee contribution rates	8.00%	6.00%	9.00%	11.25%
Required employer contribution rates	21.528%	21.528%	41.959%	41.959%

	Central Fire Miscellaneous Plan		Central Fire Safety Plan	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2.7% @ 55	2% @ 62	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life	Monthly for life
Retirement age	55	62	50	57
Required employee contribution rates	8.00%	6.50%	9.00%	10.25%
Required employer contribution rates	32.750%	7.825%	46.054%	46.054%

	Housing Authority Miscellaneous Plan		Health Authority Miscellaneous Plan	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2% @ 55	2% @ 62	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life	Monthly for life
Retirement age	50-55	62-67	55	62
Required employee contribution rates	7.00%	6.25%	7.00%	7.00%
Required employer contribution rates	7.979%	7.979%	8.00%	8.00%

Employees Covered

The following employees were covered by the benefit terms for each agent multi-employer plan as of June 30, 2018, the most recent available information available:

	County		Central Fire	Housing Authority
	Miscellaneous Plan ⁽¹⁾	Safety Plan	Safety Plan	Miscellaneous Plan
Inactive employees or beneficiaries currently receiving benefits	13,264	2,434	440	71
Inactive employees entitled to but not yet receiving benefits	7,434	483	69	115
Active employees	15,765	2,044	248	126
Total	36,463	4,961	757	312

⁽¹⁾ Includes employees and retirees of the Superior Court of California.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(11) Pension Plans (Continued)

Contributions

For the year ended June 30, 2019, the County’s actuarial determined contributions were as follows:

County Miscellaneous Plan	\$ 313,090
County Safety Plan	94,809
Central Fire Miscellaneous Plan	2,084
Central Fire Safety Plan	<u>17,029</u>
Total primary government	427,012
Housing Authority Miscellaneous Plan	1,045
Health Authority Miscellaneous Plan	<u>1,670</u>
Total County	<u><u>\$ 429,727</u></u>

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Public Employees Retirement Fund (PERF) is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by public employees during the year, with an additional amount to finance any unfunded accrued liability.

Net Pension Liability (Asset)

The table below shows how the net pension liability (asset) as of June 30, 2019, is distributed.

	<u>Net Pension Asset</u>	<u>Net Pension Liability</u>
Governmental activities	\$ -	\$ 2,793,972
Business-type activities	<u>-</u>	<u>1,298,606</u>
Total primary government	-	4,092,578
Housing Authority	15,218	-
Health Authority	<u>1,979</u>	<u>-</u>
Total	<u><u>\$ 17,197</u></u>	<u><u>\$ 4,092,578</u></u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(11) Pension Plans (Continued)

As of June 30, 2019, the County’s net pension liability (asset) is comprised of the following:

	Proportionate Share	Share of Net Pension Liability (Asset)
County Miscellaneous Plan.....	96.43%	\$ 2,973,751
County Safety Plan.....	n/a	937,588
Central Fire Miscellaneous Plan.....	0.16%	15,206
Central Fire Safety Plan.....	n/a	<u>166,033</u>
Total primary government		4,092,578
Housing Authority Miscellaneous Plan.....	n/a	(15,218)
Health Authority Miscellaneous Plan.....	-0.02%	<u>(1,979)</u>
Total County		<u>\$ 4,075,381</u>

The County’s net pension liability for the Central Fire miscellaneous plan (a cost-sharing plan) is measured as a proportionate share of the plan’s net pension liability. The County’s net pension liability of each of its plans is measured as of June 30, 2018, and the total pension liability for each of its plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018, using standard update procedures. The County’s proportions of the net pension liability for the CalPERS plans were actuarially determined as of the valuation date.

The following table shows the proportionate share of the risk pool collective net pension liability over the measurement period.

	Central Fire Miscellaneous Plan		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2017 (MD).....	\$ 53,601	\$ 37,838	\$ 15,763
Net changes during measurement period.....	1,924	2,481	(557)
Balance at June 30, 2018 (MD)	<u>\$ 55,525</u>	<u>\$ 40,319</u>	<u>\$ 15,206</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(11) Pension Plans (Continued)

The County's net pension liability (asset) for each of its agent multiple employer plan is measured as the total pension liability less the fiduciary net position for each plan. The change in the net pension liability (asset) for each plan is as follows:

	County Miscellaneous Plan			County Safety Plan		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2017	\$ 10,088,845	\$ 7,089,503	\$ 2,999,342	\$ 2,907,330	\$ 1,966,171	\$ 941,159
Change in year:						
Service cost	248,356	-	248,356	66,572	-	66,572
Interest on the total pension liability	709,959	-	709,959	204,544	-	204,544
Changes of assumptions	(98,498)	-	(98,498)	(15,100)	-	(15,100)
Differences between expected and actual experience	68,689	-	68,689	3,911	-	3,911
Plan to plan resource movement	-	12	(12)	-	(113)	113
Contributions from the employer	-	268,362	(268,362)	-	83,273	(83,273)
Contributions from employees	-	109,498	(109,498)	-	22,962	(22,962)
Net investment income	-	599,474	(599,474)	-	166,258	(166,258)
Benefit payments, including refunds of employee contributions	(449,006)	(449,006)	-	(137,334)	(137,334)	-
Administrative expenses	-	(11,015)	11,015	-	(3,064)	3,064
Other miscellaneous expenses	-	(20,919)	20,919	-	(5,818)	5,818
Change in proportionate share	(29,211)	(20,526)	(8,685)	-	-	-
Net changes during measurement period	450,289	475,880	(25,591)	122,593	126,164	(3,571)
Balance at June 30, 2018	\$ 10,539,134	\$ 7,565,383	\$ 2,973,751	\$ 3,029,923	\$ 2,092,335	\$ 937,588

	Central Fire Safety Plan			Housing Authority Miscellaneous Plan		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2017	\$ 559,763	\$ 386,501	\$ 173,262	\$ 59,922	\$ 62,785	\$ (2,863)
Change in year:						
Service cost	9,846	-	9,846	1,667	-	1,667
Interest on the total pension liability	38,844	-	38,844	4,245	-	4,245
Changes of assumptions	(2,238)	-	(2,238)	(463)	-	(463)
Differences between expected and actual experience	(5,008)	-	(5,008)	204	-	204
Plan to plan resource movement	-	(1)	1	-	-	-
Contributions from the employer	-	14,645	(14,645)	-	11,803	(11,803)
Contributions from employees	-	3,301	(3,301)	-	801	(801)
Net investment income	-	32,474	(32,474)	-	5,688	(5,688)
Benefit payments, including refunds of employee contributions	(28,327)	(28,327)	-	(2,262)	(2,262)	-
Administrative expenses	-	(602)	602	-	(98)	98
Other miscellaneous expenses	-	(1,144)	1,144	-	(186)	186
Net changes during measurement period	13,117	20,346	(7,229)	3,391	15,746	(12,355)
Balance at June 30, 2018	\$ 572,880	\$ 406,847	\$ 166,033	\$ 63,313	\$ 78,531	\$ (15,218)

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2019
(Dollars in thousands)

(11) Pension Plans (Continued)

Pension Expense and Pension Related Deferred Outflows and Inflows of Resources

For the year ended June 30, 2019, the County recognized pension expense as follows:

Governmental activities	\$ 433,477
Business-type activities	<u>176,504</u>
Total primary government	609,981
Housing Authority	900
Health Authority	<u>1,123</u>
Total	<u><u>\$ 612,004</u></u>

Pension expense represents the change in the net pension liability (asset) during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	County Miscellaneous Plan		County Safety Plan		Central Fire Miscellaneous and Safety		Total Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 313,090	\$ -	\$ 94,809	\$ -	\$ 19,113	\$ -	\$ 427,012	\$ -
Changes of assumptions	290,291	(75,592)	91,877	(15,974)	15,526	(2,042)	397,694	(93,608)
Differences between expected and actual experiences	55,893	(4,826)	6,795	(4,206)	583	(7,818)	63,271	(16,850)
Net differences between projected and actual earnings on plan investments	16,052	-	5,435	-	993	-	22,480	-
Changes in employers proportions	-	-	-	-	368	-	368	-
Difference in actual and proportionated contributions	-	-	-	-	410	-	410	-
Total	<u>\$ 675,326</u>	<u>\$ (80,418)</u>	<u>\$ 198,916</u>	<u>\$ (20,180)</u>	<u>\$ 36,993</u>	<u>\$ (9,860)</u>	<u>\$ 911,235</u>	<u>\$ (110,458)</u>

	Housing Authority Miscellaneous Plan		Health Authority Miscellaneous Plan		Total Discrete Component Units	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,045	\$ -	\$ 1,670	\$ -	\$ 2,715	\$ -
Changes of assumptions	2,029	(571)	55	(225)	2,084	(796)
Differences between expected and actual experiences	383	(197)	26	(76)	409	(273)
Net differences between projected and actual earnings on plan investments	197	-	-	(10)	197	(10)
Changes in employers proportions	-	-	30	(2,672)	30	(2,672)
Difference in actual and proportionated contributions	-	-	4,753	(12)	4,753	(12)
Total	<u>\$ 3,654</u>	<u>\$ (768)</u>	<u>\$ 6,534</u>	<u>\$ (2,995)</u>	<u>\$ 10,188</u>	<u>\$ (3,763)</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(11) Pension Plans (Continued)

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic manner. At June 30, 2019, the primary government and discrete component units reported \$427.0 million and \$2.7 million, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction to net pension liability in the year ending June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30	Deferred Outflows/ (Inflows) of Resources		
	Primary	Component	Total
	Government	Units	
2020	\$ 289,169	\$ 1,928	\$ 291,097
2021	193,110	1,568	194,678
2022	(78,354)	382	(77,972)
2023	(30,160)	(168)	(30,328)
Total	\$ 373,765	\$ 3,710	\$ 377,475

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2018 is provided below:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Actuarial cost method	Entry-age normal
Discount rate	7.15%
Inflation	2.50%
Projected salary increases	Varies by entry age and service
Post retirement benefit increase	Contract COLA up to 2.0% until purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter
Mortality Rate	Derived using CalPERS membership data for all funds *

* The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report that can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period 1997 to 2015, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(11) Pension Plans (Continued)

Change of Assumptions

Demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. The inflation rate reduced from 2.75 percent to 2.50 percent for the June 30, 2017 actuarial valuations.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that the contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds’ asset classes, expected compound geometric returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated and adjusted to account for assumed administrative expenses.

The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The long-term expected real rate of return by asset class and the target allocation adopted by the CalPERS Board effective on July 1, 2017, are as follows:

<u>Asset Class</u>	<u>Assumed asset allocation</u>	<u>Real Return Years 1-10⁽¹⁾</u>	<u>Real Return Years 11+⁽²⁾</u>
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00	1.00	2.62
Inflation assets	-	0.77	1.81
Private Equity	8.00	6.30	7.23
Real assets	13.00	3.75	4.93
Liquidity	1.00	-	-0.92

⁽¹⁾ An expected inflation of 2.00% used for this period.

⁽²⁾ An expected inflation of 2.92% used for this period.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(11) Pension Plans (Continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in Discount Rate

The following presents the net pension liability (asset) of each of the County’s pension plans as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if they were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Net Pension Liability (Asset)		
	Current		
	Discount Rate -1% (6.15%)	Discount Rate (7.15%)	Discount Rate +1% (8.15%)
County Miscellaneous Plan ⁽¹⁾	\$ 4,396,260	\$ 2,973,751	\$ 1,795,961
County Safety Plan	1,358,389	937,588	592,588
Central Fire Miscellaneous Plan ⁽²⁾	22,717	15,206	9,006
Central Fire Safety Plan	241,565	166,033	103,700
Housing Authority Miscellaneous Plan	(5,995)	(15,218)	(22,794)
Health Authority Miscellaneous Plan ⁽²⁾	3,797	(1,979)	(6,746)

⁽¹⁾ Excludes non-Judge employees and retirees of the Superior Court of California.

⁽²⁾ Represents the Central Fire’s and Health Authority’s proportionate share of the net pension liability of the CalPERS Miscellaneous Plan.

Pension Plan Fiduciary Net Position

Detailed information about each of the pension plans’ fiduciary net position is available in the separately issued CalPERS financial reports.

(b) County of Santa Clara Supplemental Benefit Plan

During the fiscal year 2009, the County established a defined contribution retirement plan (County of Santa Clara Supplemental Benefit Plan (Supplemental Plan)). The County employees hired or accepted written job offers before July 1, 2008 and with compensation in excess of the Internal Revenue Code (IRC) Section 401(a)(17) limitations are eligible to participate in the Supplemental Plan. The Supplemental Plan is a tax-deferred plan that is subject to an annual contribution limit under the IRC and any supplemental benefits in excess of the IRC limit will be paid to the employee as taxable income.

The County will contribute and deposit the supplemental benefits into the Supplemental Plan at the end of January, following the close of the Plan’s calendar year. Employer contributions become fully vested at the time of the County’s contribution. The Supplemental Benefit Plan had 122 participants and an ending fair value of \$34,760 at June 30, 2019. During the fiscal year ended June 30, 2019, the County made tax deferred contributions of \$2,227 to the Supplemental Plan and paid \$138 to eligible employees as taxable income.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(11) Pension Plans (Continued)

(c) *FIRST 5 Santa Clara County IRC 401(a) Plan*

In November 2001, FIRST 5's Board approved the implementation of an Internal Revenue Code Section 401(a) Retirement Plan (the "Plan") effective January 1, 2002 for all FIRST 5 employees. The Plan is a defined contribution plan administered by the Unified Trust Company. The Plan is open to all employees, excluding employees who work less than 20 hours per week. Currently 53 employees are enrolled in the Plan. The Plan provides retirement benefits based on the employee's salary and years of service.

Effective January 1, 2008, the Plan had three different types of employer contributions which vest 100% after three years of employment service. The Plan requires employer contributions of 7% of employee's compensation. The employer's contribution under this requirement was \$296 for the year ended June 30, 2019. The employer also contributes a dollar for dollar match on the elective deferrals noted in the deferred compensation plan to a maximum of 5% of each employee's annual compensation. The employer's contribution was \$185 for the year ended June 30, 2019. Additional supplemental contributions may be made by the employer based on a compensation arrangement between employee and the employer. The contribution requirements of Plan members and FIRST 5 are established by and may be amended by the Unified Trust Company.

(d) *Santa Clara County Health Authority Defined Contribution Plan*

In addition to the defined benefit pension plan, the Health Authority has a defined contribution plan under Section 401(a) of the Internal Revenue Code. Under the 401(a) Plan, for employees hired prior to January 1, 2013, participants must contribute 6% of their gross compensation and the Health Authority must contribute 3% of the participants' gross compensation. For employees hired on or after January 1, 2013, participants must contribute 6.25% of their gross compensation within a specific range and the Health Authority must contribute 6.533% of the participant's gross compensation within the same specific range. The Health Authority contributes greater than 3% of gross compensation for senior staff level employees. In return, senior staff level employees contribute less than 6% of their gross compensation. Contributions by the Health Authority totaled \$717 for the year ended June 30, 2019.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(12) Other Postemployment Benefit (OPEB) Plans

Plan Description and Benefits Provided

The County, Central Fire, Housing Authority, and Health Authority participate in CERBT, an agent multiple-employer postemployment health plan, to fund other postemployment benefits through CalPERS. Copies of CalPERS' annual financial report may be obtained from their executive office at 400 Q Street, Sacramento, California 95811. A separate report for the County's plans in CERBT is not available.

County OPEB Plan

The County maintains a cost-sharing multiple-employer defined benefit postemployment healthcare plan (County OPEB Plan), which covers substantially all (excluding Central Fire, Housing Authority and Health Authority) of its employees and Judges of the Superior Court. Due to the relative insignificance of the other employer in the County OPEB Plan, the County presents disclosure information for the OPEB Plan as if it was a single-employer plan. The County OPEB Plan provides healthcare benefits to eligible County (excluding Central Fire, Housing Authority and Health Authority) employees and their surviving spouses. Central Fire, Housing Authority and Health Authority employees have separate defined benefit postemployment healthcare plans.

County employees hired prior to August 12, 1996 are eligible for health benefits upon attaining age 50 with 5 years of service. Employees hired on or after August 12, 1996 and before June 19, 2006 are eligible upon attaining age 50 with 8 years of service. Employees hired on or after June 19, 2006 are eligible upon attaining age 50 with 10 years of service. The County has established a 15-year retiree health benefit service requirement that applies to employees hired mostly on or after September 30, 2013. The specific effective date depends on each bargaining unit's agreement with the County. For all the above, employees must retire from CalPERS directly from the County.

Retirees retired prior to December 5, 1983 have their full premium cost subsidized by the County. In addition, the County subsidizes the Part B premium cost for retirees in Medicare status who are not receiving health-in-lieu benefits. For most of the retirees retired since December 5, 1983, the County contribution is limited to the cost of Kaiser under age 65 retiree only rate over the plan year. Retirees pay the difference between the County contribution and the premium rate required by their enrolled plan.

Central Fire OPEB Plan

The Central Fire maintains a separate OPEB plan from the County. Under this plan, Central Fire provides for lifetime medical coverage to retirees who meet eligibility requirements. Currently, employees who retire directly from the Central Fire, have accrued seven years of service and were hired between January 1, 1995 and December 31, 2006, inclusive, or retire directly from the Central Fire, have accrued 10 years of service and were hired after December 31, 2006 are eligible.

The Central Fire pays the cost of OPEB for the retirees and his/her spouse if the retiree retired on or before January 1, 1978. The Central Fire will pay for the spouse's coverage so long as the retiree maintains eligibility. An employee who retires after January 1, 1978 may include his/her dependent on the plan by self-paying the additional cost for that dependent.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(12) Other Postemployment Benefit (OPEB) Plans (Continued)

Housing Authority OPEB Plan

The Housing Authority maintains a separate OPEB plan from the County. The Housing Authority provides eligible employees with post-retirement medical healthcare benefits. Upon retirement, qualified employees and spouses/domestic partners are eligible for continued medical coverage up to the Employer Coverage Cap in effect on the date of the employee’s retirement. Medical provider at the time of retirement will be the same medical provider during the final year of employment unless the employee moves from the plan service area. In the event the employee moves out of the plan service area, a supplemental medical plan will be made available at that time. Participation in Part A and Part B of the Medicare plan available at the time of retirement is a requirement of the plan. The surviving spouse or domestic partner may continue to purchase medical coverage after the death of the retiree at the surviving spouse/partner’s expense. The Housing Authority participates in the CalPERS medical program as permitted under the Public Employees’ Medical and Hospital and Care Act (PEMHCA). As such, the Housing Authority is obligated to contribute toward the cost of retiree medical coverage for the retiree’s lifetime or until coverage is discontinued.

As provided by the PEMHCA, the Housing Authority has been under contract with CalPERS for medical plan coverage since 2008 and has chosen to satisfy its retiree medical benefit commitment using the unequal contribution method. The Housing Authority has made contributions toward the medical premiums of retirees who meet the conditions set forth in the following table.

Minimum Retirement Age *	Years of Service with the Housing Authority		
	At least 20 and less than 25	At least 25 and less than 30	30 or more
62	80%	90%	100%
63	85%	95%	100%
64	90%	100%	100%
65	100%	100%	100%

* Employee must reach this age while employed.

In addition to its monthly contributions of up to the \$2 cap toward the cost of retiree medical coverage, the Housing Authority pays 100% of the cost of dental and vision insurance for those retirees that opted for the “early retirement option plans” offered by the Housing Authority in the past as an incentive for early retirement.

Health Authority OPEB Plan

The Health Authority also maintains a separate OPEB plan from the County. The Health Authority provides healthcare benefits to eligible employees and certain dependents. Retired employees who retire directly from Health Authority are eligible to receive contributions from the Health Authority toward their monthly PEMHCA account if they meet certain age and service eligibility requirements as outlined in the plan document approved by the Health Authority’s governing board.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(12) Other Postemployment Benefit (OPEB) Plans (Continued)

Employees hired prior to May 1, 2018, who attain age 50, with a minimum of 5 years of CalPERS service, and employed by the Health Authority at the time of retirement, are eligible for coverage. Employees hired on or after May 1, 2018, who attain age 50, with a minimum of 12 continuous years of employment at the Health Authority, and are employed by the Health Authority at the time of retirement are also eligible for coverage. Retirees are required to fund 10% of the cost of their monthly premiums.

Employees Covered

The following employees were covered by the benefit terms for each OPEB plan as of June 30, 2018, the most recent available information available:

	<u>County</u>	<u>Central Fire</u>	<u>Housing Authority</u>	<u>Health Authority</u>
Inactive employees or beneficiaries				
currently receiving benefits	10,517	266	50	55
Active employees	<u>17,611</u>	<u>310</u>	<u>125</u>	<u>232</u>
Total	<u><u>28,128</u></u>	<u><u>576</u></u>	<u><u>175</u></u>	<u><u>287</u></u>

Contributions

The County’s OPEB funding policy is to contribute 100 percent or more of the actuarially determined contribution each year. The County’s contribution to the OPEB plan occurs as benefits are paid to the retirees or as contributions to CERBT. Benefit payments occur in the form of direct payments for premiums and taxes (explicit subsidies) and indirect payments to retirees in the form of higher premiums for active employees (implicit subsidies).

Net OPEB Liability (Asset)

The table below shows how the County’s net OPEB liability (asset) as of June 30, 2019 is distributed.

Governmental activities	\$ 868,245
Business-type activities	<u>420,177</u>
Total primary government	1,288,422
Housing Authority	(961)
Health Authority	<u>2,539</u>
Total	<u><u>\$ 1,290,000</u></u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(12) Other Postemployment Benefit (OPEB) Plans (Continued)

The County's net OPEB liability (asset) for each of its OPEB plan is measured as the total OPEB liability less the fiduciary net position for each plan. The net OPEB liability (asset) is measured as of the measurement date of June 30, 2018. The change in the net OPEB liability (asset) for each plan is as follows:

	County Plan			Central Fire Plan		
	Increase (Decrease)			Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 2,141,417	\$ 857,822	\$ 1,283,595	\$ 51,197	\$ 20,717	\$ 30,480
Change in year:						
Service cost	59,565	-	59,565	1,200	-	1,200
Interest on the total OPEB liability	151,194	-	151,194	3,618	-	3,618
Changes of assumptions	39,454	-	39,454	-	-	-
Differences between expected and actual experience	(32,527)	-	(32,527)	1,225	-	1,225
Contributions from the employer	-	167,142	(167,142)	-	7,331	(7,331)
Contributions from employees	-	6,315	(6,315)	-	-	-
Net investment income	-	68,397	(68,397)	-	1,816	(1,816)
Benefit payments, including refunds of employee contributions	(82,140)	(82,140)	-	(4,242)	(4,242)	-
Administrative expenses	-	(1,607)	1,607	-	(12)	12
Net changes during measurement period	135,546	158,107	(22,561)	1,801	4,893	(3,092)
Balance at June 30, 2018	\$ 2,276,963	\$ 1,015,929	\$ 1,261,034	\$ 52,998	\$ 25,610	\$ 27,388

	Housing Authority Plan			Health Authority Plan		
	Increase (Decrease)			Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 11,763	\$ 10,037	\$ 1,726	\$ 11,046	\$ 6,337	\$ 4,709
Change in year:						
Service cost	426	-	426	1,119	-	1,119
Interest on the total OPEB liability	654	-	654	805	-	805
Contributions from the employer	-	3,181	(3,181)	-	3,588	(3,588)
Net investment income	-	605	(605)	-	518	(518)
Benefit payments, including refunds of Administrative expense	(567)	(567)	-	(478)	(478)	-
Administrative expense	-	(19)	19	-	(12)	12
Net changes during measurement period	513	3,200	(2,687)	1,446	3,616	(2,170)
Balance at June 30, 2018	\$ 12,276	\$ 13,237	\$ (961)	\$ 12,492	\$ 9,953	\$ 2,539

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(12) Other Postemployment Benefit (OPEB) Plans (Continued)

OPEB Expense and OPEB Related Deferred Outflows and Inflows of Resources

For the year ended June 30, 2019, the County recognized OPEB expense as follows:

Governmental activities	\$ 95,352
Business-type activities	<u>9,674</u>
Total primary government	105,026
Housing Authority	500
Health Authority	<u>1,410</u>
Total	<u>\$ 106,936</u>

OPEB expense represents the change in the net OPEB liability (asset) during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

At June 30, 2019, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	County Plan		Central Fire Plan		Total Primary Government	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 122,412	\$ -	\$ 3,405	\$ -	\$ 125,817	\$ -
Changes of assumptions	33,365	(28,476)	-	-	33,365	(28,476)
Differences between expected and actual experiences	-	(153,947)	1,032	-	1,032	(153,947)
Net differences between projected and actual earnings on plan investments	-	(18,414)	-	(539)	-	(18,953)
Total	<u>\$ 155,777</u>	<u>\$ (200,837)</u>	<u>\$ 4,437</u>	<u>\$ (539)</u>	<u>\$ 160,214</u>	<u>\$ (201,376)</u>

	Housing Authority Plan		Health Authority Plan		Total Discrete Component Units	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 547	\$ -	\$ 2,601	\$ -	\$ 3,148	\$ -
Changes of assumptions	1,827	-	103	-	1,930	-
Differences between expected and actual experiences	-	(1,462)	-	(11)	-	(1,473)
Net differences between projected and actual earnings on plan investments	-	(14)	-	(140)	-	(154)
Total	<u>\$ 2,374</u>	<u>\$ (1,476)</u>	<u>\$ 2,704</u>	<u>\$ (151)</u>	<u>\$ 5,078</u>	<u>\$ (1,627)</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(12) Other Postemployment Benefit (OPEB) Plans (Continued)

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net OPEB liability to be recognized in future periods in a systematic manner. At June 30, 2019, the primary government and discrete component units reported \$125.8 million and \$3.1 million, respectively, as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction to net OPEB liability in the year ending June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ending June 30	Deferred Outflows/ (Inflows) of Resources		
	County Plan	Central Fire Plan	Total Primary Government
2020	\$ (39,301)	\$ 26	\$ (39,275)
2021	(39,301)	26	(39,275)
2022	(39,301)	26	(39,275)
2023	(34,554)	153	(34,401)
2024	(15,529)	192	(15,337)
Thereafter	514	70	584
Total	<u>\$ (167,472)</u>	<u>\$ 493</u>	<u>\$ (166,979)</u>

Year Ending June 30	Housing Authority Plan	Health Authority Plan	Total Discrete Component Unit
	2020	\$ 59	\$ (32)
2021	59	(32)	27
2022	59	(32)	27
2023	69	8	77
2024	65	13	78
Thereafter	40	27	67
Total	<u>\$ 351</u>	<u>\$ (48)</u>	<u>\$ 303</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
June 30, 2019
(Dollars in thousands)

(12) Other Postemployment Benefit (OPEB) Plans (Continued)

Actuarial Assumptions

The actuarial assumptions and methods used to calculate the total OPEB liability as of June 30, 2018 are summarized as follows:

	<u>County Plan</u>	<u>Central Fire Plan</u>
Valuation date	June 30, 2018	June 30, 2017
Measurement date	June 30, 2018	June 30, 2018
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method	30 years, closed, level percent of payroll	30 years, closed, level percent of payroll
Actuarial asset valuation method	Market value	Market value
Discount rate	7.00%	7.28%
Price inflation	2.50%	3.00%
Wage inflation	2.75%	3.00%
Projected payroll increases	Increase of 3.25% to 15.95% depending on age, service and type of employment.	Varies by entry age and service
Healthcare cost trend rate	Medicare and Non-Medicare cost trend rate of 6.5% and 7%, respectively, for initial year, graded down by 0.25% per year until 4.50% ultimate rate is reached. Medicare Part B cost trend rate of 4%.	Initial healthcare trend rate of 6.25% graded down until 4.0% ultimate rate is reached.
Mortality and other actuarial assumptions	CalPERS 2014 experience study report using data for the period from 1997 to 2011.	CalPERS 2014 experience study report using data for the period from 1997 to 2011.
	<u>Housing Authority Plan</u>	<u>Health Authority Plan</u>
Valuation date	July 1, 2017	June 30, 2018
Measurement date	June 30, 2018	June 30, 2018
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Actuarial asset valuation method	Market value	Market value
Discount rate	5.50%	6.75%
Price inflation	2.75%	2.75%
Wage inflation	3.00%	2.75%
Projected payroll increases	3.25%	Varies by entry age and services
Healthcare cost trend rate	Medical premium: Healthcare cost trend rate of 7.5% for initial year, graded down by 0.5% per year until 5.0% ultimate rate is reached. PMEHCA, dental and vision premium: 4.5%	7.50% for 2019 - Non-Medicare, decreasing to 4.00% in 2075, 6.5% for 2019 - Medicare, decreasing to 4.00% in 2075
Mortality and other actuarial assumptions	MacLeod Watts Scale 2017 applied generationally.	CalPERS 2017 experience study report using data for the period from 1997 to 2015.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(12) Other Postemployment Benefit (OPEB) Plans (Continued)

Change of Assumptions

For the County OPEB plan, price inflation rate decreased from 2.75 percent to 2.50 percent, wage inflation decreased from 3.00 percent to 2.75 percent, and projected payroll increases as well as medical cost trend rate were adjusted. For the Health Authority Plan, demographic assumptions were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

Discount Rate

The discount rate used to measure the OPEB liability for the County, Central Fire, Housing Authority, and Health Authority OPEB plans were 7.00, 7.28, 5.50, and 6.75 percent, respectively. The projection of cash flows used to determine the discount rate assumed that the employer contribution will be made equal to the actuarially determined contribution. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments is applied to all periods of projected benefit payments to determine the total OPEB liability.

Using historical returns of all the asset classes, expected compound geometric returns were calculated using building-block approach. The long-term expected real rate of return by asset class and the target allocation are as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return			
		County Plan	Central Fire Plan	Housing Authority Plan	Health Authority Plan
Global Equity	59.00%	7.40%	5.25%	5.25%	4.82%
Fixed Income	25.00	1.75	2.25	1.79	1.47
Real Estate	8.00	5.10	4.50	3.25	3.76
Treasury Inflation Protected Securities	5.00	4.30	1.25	1.00	1.29
Commodities	3.00	4.90	1.25	0.34	0.84

Sensitivity of the Net OPEB Liability (Asset) to Changes in Discount Rate

The following presents the net OPEB liability (asset) of each of the OPEB plans as of the measurement date, calculated using the discount rate of 7.00, 7.28, 5.50, and 6.75 percent for the County, Central Fire, Housing Authority, and Health Authority OPEB plans, respectively, as well as what the net OPEB liability would be if they were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	Net OPEB Liability (Asset)		
	Discount Rate -1%	Current Discount Rate	Discount Rate +1%
County Plan	\$ 1,589,702	\$ 1,261,034	\$ 991,842
Central Fire Plan	33,305	27,388	22,389
Housing Authority Plan	116	(961)	(1,715)
Health Authority Plan	4,299	2,539	1,091

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(12) Other Postemployment Benefit (OPEB) Plans (Continued)

Sensitivity of the Net OPEB Liability (Asset) to Changes in Healthcare Cost Trend

The following presents the net OPEB liability of each of the OPEB plans as of the measurement date, as well as what the net OPEB liability would be if they were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1 percentage-point higher than the current rate:

	Net OPEB Liability (Asset)		
	Healthcare Cost	Current	Healthcare Cost
	Trend Rate	Healthcare Cost	Trend Rate
	-1%	Trend Rate	+1%
County Plan	\$ 939,430	\$ 1,261,034	\$ 1,690,772
Central Fire Plan	21,914	27,388	33,960
Housing Authority Plan	(2,702)	(961)	1,523
Health Authority Plan	832	2,539	4,575

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued CERBT financial report.

(13) Risk Management

The County is exposed to various risks of loss related to torts; medical malpractice; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment; and health benefits to employees and retirees. The County is self-insured for its general liability, workers’ compensation, unemployment, retiree benefits, medical malpractice liability, and automobile liability. The County has chosen to establish risk financing internal service funds where assets are set aside for claim settlements associated with the above risks of loss up to certain limits.

Excess coverage is provided by the California State Association of Counties’ Excess Insurance Authority (Insurance Authority), a joint powers authority, whose purpose is to develop and fund programs of excess insurance and provide the joint purchase of coverage from independent third parties for its member entities for the following types of coverage listed below. The Insurance Authority is governed by a Board of Directors consisting of representatives of its member entities.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(13) Risk Management (Continued)

Self-insurance and Insurance Authority limits are as follows:

Type of Coverage	Self-Insurance (per occurrence)	Self-Retained ⁽¹⁾	Purchase Insurance Policies (per occurrence)
Automobile	\$2,000 plus \$500 corridor ⁽²⁾	\$0	\$48,000
General Liability	\$2,000 plus \$500 corridor ⁽²⁾	\$0	\$48,000
Medical Malpractice	\$500	\$1,500 per occurrence	\$20,000 \$50,000 annual aggregate \$48,000 excess insurance
Workers' Compensation	\$4,000	\$1,000 per occurrence	Statutory
Property Damage	Up to \$50 ⁽³⁾ (This is deductible)	\$3,000 per occurrence \$10,000 annual aggregate	Up to \$1,200,000 ⁽⁴⁾
Flood	\$50 to \$100 (This is deductible)		Up to \$1,200,000 ⁽⁵⁾
Earthquake	2% of insurable value per occurrence \$100 minimum deductible per occurrence		Up to \$665,000 ⁽⁶⁾
Cyber Liability	\$100		\$250 to \$2,000 \$20,000 annual aggregate
Aircraft	None		\$15,000
Airport	None		\$50,000
Crime Bond	\$25		\$15,000
Pollution	\$250		\$10,000

⁽¹⁾ The self-retained layer acts as an additional amount to pay claims before a loss is paid by the insurance company. This self-retained layer is contributed to by the member entities and remains their asset. Once the self-retained layer is exhausted, the insurance company pays all claims above the County's self-insurance amount. Any funds left in the self-retained layer can be used to fund self-retained amounts in future years.

⁽²⁾ Corridor is a finite amount of self-insurance shared by the Automobile and General Liability policies.

⁽³⁾ Deductible for the Fairgrounds is \$5 per occurrence. All properties are insured at full replacement value.

⁽⁴⁾ Insured values are split between 3 towers with limits of \$300,000 per tower shared with all other members in those same 3 towers, plus a rooftop of \$300,000 shared with all members in a total of 8 towers for a total of \$1,200,000.

⁽⁵⁾ Insured values are split between 3 towers with limits of \$300,000 per tower shared with all other members in those same 3 towers, plus a rooftop of \$300,000 shared with all members in a total of 8 towers for a total of \$1,200,000.

⁽⁶⁾ Insured values are split between 3 towers with limits of \$100,000 per tower shared with all other members in those same 3 towers, plus a rooftop of \$365,000 shared with all members in a total of 6 towers for a total of \$665,000.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(13) Risk Management (Continued)

There have been no settlement amounts exceeding commercial or Insurance Authority insurance coverage since self-insurance was introduced in 1978. It is the County’s practice to obtain full actuarial studies annually for the self-insured property, general liability, automobile liability, medical malpractice, and workers’ compensation liability issues. The unpaid claims liabilities included in the self-insurance internal service funds for these risks are based on the results of actuarial studies and include amounts for claims incurred but not reported and loss adjustment expenses. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

The County computes its claims liability based on the expected value discounted at 1.0% for property, general and automobile liability claims, and discounted at 2.0% for medical malpractice and workers’ compensation claims. Changes in the balances of claims liabilities during the past two fiscal years ended June 30 for the County’s self-insurance internal service funds are as follows:

	2019	2018
Unpaid claims, beginning of year	\$ 172,735	\$ 166,772
Incurred claims and changes in estimate	36,463	49,745
Claim payments	<u>(26,786)</u>	<u>(43,782)</u>
Unpaid claims, end of year	<u>\$ 182,412</u>	<u>\$ 172,735</u>

Annual insurance premiums are recovered by charging covered departments using various allocation methods that include actual costs, trends in claims loss experience, and number of covered participants. Premiums expenses recorded in the self-insurance internal service funds totaled \$22,894 for the fiscal year ended June 30, 2019.

(14) Commitments and Contingencies

(a) Commitments

The County has various non-cancelable operating leases as lessees primarily for office space and equipment (accounted for principally in the General Fund). Approximate future minimum operating lease commitments are as follows:

Fiscal year ended June 30,	Governmental Activities	Business-Type Activities	Total
2020	\$ 54,782	\$ 5,440	\$ 60,222
2021	48,949	4,356	53,305
2022	39,479	2,796	42,275
2023	21,198	464	21,662
2024	15,652	246	15,898
2025-2029	71,137	-	71,137
2030-2034	7,339	-	7,339
2035-2039	1,284	-	1,284
2040	238	-	238
Total	<u>\$ 260,058</u>	<u>\$ 13,302</u>	<u>\$ 273,360</u>

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(14) Commitments and Contingencies (Continued)

Rent expense for fiscal year 2019 was approximately \$35,579 and \$12,297 for the governmental activities and business-type activities, respectively.

The County has entered into operating leases as lessor on various properties with businesses and other governmental agencies (accounted for principally in the General Fund). The future minimum payments to be received are as follows:

Fiscal year ended June 30,	Governmental Activities	Business-Type Activities	Total
2020	\$ 4,448	\$ 435	\$ 4,883
2021	4,340	185	4,525
2022	4,444	-	4,444
2023	4,548	-	4,548
2024	4,655	-	4,655
2025-2029	24,263	-	24,263
2030-2034	24,561	-	24,561
2035-2039	24,469	-	24,469
2040-2044	201	-	201
2045-2049	222	-	222
2050-2054	245	-	245
2055-2059	270	-	270
2060-2064	299	-	299
2065-2066	128	-	128
Total	\$ 97,093	\$ 620	\$ 97,713

At June 30, 2019, the leased assets had a net book value of \$9,377. Rent income for fiscal year 2019 was approximately \$10,041 and \$2,526 for the governmental activities and business-type activities, respectively.

The County has entered into various service concession arrangements with governmental and nongovernmental entities (operators) to provide services to the public. Rental incomes received from these service concessions arrangements are included in the above table. As part of service concession arrangements, the County facilities were conveyed to the operators to provide services related to the primary function of the facility. The operators agreed to operate and maintain the County’s facilities and collect the related fees during the term of the agreements. The operators agreed to pay the County a certain percentage of revenues they collected and/or pay installment payments to the County. Some operators also agreed to construct new facilities or improve existing facilities. The County reported the new facilities or the improvements as capital assets at fair value when it is placed in operations.

The County has no contractual obligation related to the facilities or obligations related to the maintenance of a minimum level of the service in connection with the operations of the facilities. In accordance with GASB Statement No. 60, the County recognized the present value of the future installment payments as a receivable, the fair value of newly constructed facilities or improvements as capital assets, and offset the balances with deferred inflows of resources. The capital assets are depreciated using the straight-line method based on the useful lives in accordance with the County’s capital asset policy. Revenues are recognized over the term of the arrangements. At June 30, 2019, the governmental activities reported total deferred inflows of resources for the service concession arrangements of \$13,188, of which \$3,810 is related to the receivables and \$9,378 is related to the capital assets.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(14) Commitments and Contingencies (Continued)

(b) *Litigation*

The County accounts for claims in the internal service funds and the General Fund. As of June 30, 2019, the County had accrued amounts which management believes are adequate to provide for claims and litigation, which arose during the normal course of activities. There are other outstanding claims and litigation for which County management believes the ultimate outcome of these claims and litigation will not significantly impact the County's financial position.

(c) *Conduit Debt - Multiple Family Mortgage Revenue Bonds*

The County, acting as coordinator with certain cities, issued Tax-Exempt Mortgage Revenue Bonds with periodic maturities through May 2040. At June 30, 2019, the outstanding balance of these bonds was \$5,831. Multiple family mortgage revenue bonds were issued to provide financing to developers of specified multiple family housing projects. These developers agree to rent a percentage of units to qualified families at below market rates. The bonds are not considered obligations of the County and are payable solely from payments made on the related secured mortgage loans.

(d) *Conduit Debt - Insured Revenue Bonds*

On March 16, 2007, the Financing Authority served as the conduit issuer of the 2007 Insured Revenue Bonds Series A (\$50,000), Series B (\$50,000), and Series C (\$50,000) (collectively, "2007 Insured Revenue Bonds") in order to provide funds for the construction, renovation, and improvement of the El Camino Hospital, a nonprofit public corporation. These bonds were issued to fund a portion of the construction of a new five-level main hospital building and the purchase and installation of equipment (El Camino Hospital Project).

On May 15, 2008, the 2007 Insured Revenue Bonds were mandatory tendered at which time Series A (\$49,175), Series B (\$49,175), and Series C (\$49,175) (collectively, "2007 Remarketed Insured Revenue Bonds") were remarketed as fixed interest rate bonds. The 2007 Remarketed Insured Revenue Bonds bear fixed interest rates ranging from 4.00% to 5.75%, and have a final maturity date of February 1, 2041. At June 30, 2019, the total outstanding balance of these conduit bonds was \$114,675.

On March 30, 2009, the Financing Authority served as the conduit issuer of the 2009 Variable Rate Revenue Bonds (2009 Bonds) in the amount of \$50,000 in order to provide funds for the El Camino Hospital Project. The 2009 Bonds bear variable interest rate based on the Weekly Interest Rate as defined in the bond indenture. The 2009 Bonds have a final maturity date of February 1, 2044. At June 30, 2019, the total outstanding balance for the 2009 Bonds was \$50,000.

The Financing Authority and the County have no obligation for these bonds as the bonds are secured under the provisions of the Indenture and will be payable solely from payments made by the El Camino Hospital under the Loan Agreements. These bonds are not payable from any revenues or assets of the County. Neither the faith and credit nor the taxing power of the County, the State or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)

June 30, 2019

(Dollars in thousands)

(14) Commitments and Contingencies (Continued)

(e) *Encumbrances*

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed by the County as an extension of formal budgetary accounting in the General Fund, Special Revenue Funds, and Capital Projects Funds. Encumbrances still open at year end are not accounted for as expenditures and liabilities but as part of committed or assigned fund balance. At June 30, 2019, encumbrances totaled to \$21,199, \$126,956, \$15,509 and \$16,001 for the General Fund, General Capital Improvement Fund, Nonmajor Special Revenue Funds, and Nonmajor Capital Projects Funds, respectively.

(15) Pollution Remediation

The Almaden Quicksilver County Park (Park) was established in the mid-1970s after the purchase of various properties in the Almaden foothills. From the mid 1800's to 1975, numerous companies that owned these properties extracted mercury from portions of these properties. One of the by-products of the mercury extraction process is a material called calcines. Calcines have been deposited in various areas in the Park and are considered by several regulatory agencies to be a source of mercury contamination in the watershed.

In 1987, the State Department of Toxic Substance Control issued a Remedial Action Order and required the Parks Department to remove calcine piles and re-work calcine and sediments containing mercury to allowable levels for human exposure. This work was completed by 2000. However, later in the year, the United States Department of Interior and California State Department of Fish and Game advised the County and Santa Clara Valley Water District that it intended to bring forth a Natural Resource Damage Assessment against both parties, as well as other potential responsible parties, for assessing damages for injuries to fish and bird life resulting from mercury contamination in Guadalupe River watershed. In 2005, these parties executed a Consent Decree that outlined specific obligations, including a calcines removal project at the Park. At this point in time, the County completed one of the projects related to Jacques Gulch and the County is in the permitting stage related to the second project, the Hacienda Deep Gulch cleanup, which is estimated to commence in March 2020.

In November 2009, the State Water Resources Control Board approved a Basin Plan Amendment for the Guadalupe River Watershed, which established a total maximum daily load (TMDL) for mercury mine wash and sediment and included an implementation plan to reduce mercury in the waters of the Guadalupe River watershed. In June 2009, the County received a §13267 order from Regional Water Quality Control Board (RWQCB) to conduct a site investigation by December 2010 and evaluate the erosion potential of mercury mining waste and the potential for seeps to discharge mercury from mining waste to surface waters. In November 2009, the RWQCB issued a second §13267 order requiring that the County develop and participate in a coordinated watershed monitoring plan.

The County concluded the required evaluation for erosion potential of mercury mining waste. As of June 30, 2019, it is estimated that approximately \$13,740 will be spent during the next five years to repair and remediate damaged areas. Further repair costs may be necessary, but such amounts cannot be estimated nor has funding been identified at this time.

COUNTY OF SANTA CLARA

Notes to the Basic Financial Statements (Continued)
 June 30, 2019
 (Dollars in thousands)

(16) Vehicle Registration Fee

The County receives vehicle registration fees (VRF) from the Santa Clara Valley Transportation Authority since August 2012. The amounts received have been spent on various dig-out and micro-surfacing projects on Lawrence Expressway (Homestead Road to State Route 237, Kifer Road to Enochs Street), Capital Expressway (Tully Road to Quimby, US101 to Seven Trees Boulevard), and pavement rehabilitation on Lawrence Expressway (Quito Road to Homestead Road). Below is a summary of the County’s VRF receipts and expenditures:

	Year Ended June 30, 2019	From Inception To June 30, 2019 Cumulative Balance
Proceeds received	\$ 1,877	\$ 12,798
Total expenditures paid and accrued	<u>(2,640)</u>	<u>(12,636)</u>
Unused (used) proceeds	(763)	162
Prior year unused proceeds	<u>947</u>	<u>-</u>
Total proceeds available	184	162
Interest earned	<u>1</u>	<u>23</u>
Total available	<u><u>\$ 185</u></u>	<u><u>\$ 185</u></u>

(17) Subsequent Event

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses and governmental entities and could adversely impact the County and its results of activities. It is not possible for the County to predict the duration or magnitude of the adverse results of the outbreak and its effects on the County or results of activities at this time.

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**Required Supplementary
Information**

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COUNTY OF SANTA CLARA
 Required Supplementary Information (Unaudited)
 Schedules of Changes in Net Pension Liability and Related Ratios
 During the Measurement Period
 (In thousands)

Fiscal Year	County Miscellaneous Plan				
	2019	2018	2017	2016	2015
Measurement period	2018	2017	2016	2015	2014
Total pension liability					
Service cost	\$ 248,356	\$ 237,931	\$ 201,494	\$ 193,108	\$ 194,389
Interest	709,959	679,153	647,932	611,717	576,809
Changes of assumptions	(98,498)	568,403	-	(149,993)	-
Differences between expected and actual experience	68,689	(9,450)	12,742	(12,698)	-
Benefit payments, including refunds of employee contributions	(449,006)	(415,816)	(388,854)	(360,951)	(334,427)
Change in proportionate share	(29,211)	4,668	26,538	45,338	-
Net change in total pension liability	450,289	1,064,889	499,852	326,521	436,771
Total pension liability, beginning	10,088,845	9,023,956	8,524,104	8,197,583	7,760,812
Total pension liability, ending	\$ 10,539,134	\$ 10,088,845	\$ 9,023,956	\$ 8,524,104	\$ 8,197,583
Plan fiduciary net position					
Contributions, employer	\$ 268,362	\$ 259,733	\$ 232,045	\$ 200,542	\$ 180,535
Contributions, employee	109,498	106,502	100,248	93,991	96,868
Net investment income	599,474	716,254	34,043	142,299	944,377
Plan to plan resource movement	12	(99)	168	(557)	-
Benefit payments, including refunds of employee contributions	(449,006)	(415,816)	(388,854)	(360,951)	(334,427)
Administrative expenses	(11,015)	(9,497)	(3,934)	(7,251)	-
Other miscellaneous expenses	(20,919)	-	-	-	-
Change in proportionate share	(20,526)	3,326	20,036	35,022	-
Net change in plan fiduciary net position	475,880	660,403	(6,248)	103,095	887,353
Plan fiduciary net position, beginning	7,089,503	6,429,100	6,435,348	6,332,253	5,444,900
Plan fiduciary net position, ending	\$ 7,565,383	\$ 7,089,503	\$ 6,429,100	\$ 6,435,348	\$ 6,332,253
Plan net pension liability	\$ 2,973,751	\$ 2,999,342	\$ 2,594,856	\$ 2,088,756	\$ 1,865,330
Plan fiduciary net position as a percentage of the total pension liability	71.78%	70.27%	71.24%	75.50%	77.25%
Covered payroll	\$ 1,450,851	\$ 1,366,788	\$ 1,276,163	\$ 1,196,655	\$ 1,143,056
Plan net liability as a percentage of covered payroll	204.97%	219.44%	203.33%	174.55%	163.19%

Note to schedule:

Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only five years of information is shown.

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2017 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions - During measurement period 2014, the discount rate was 7.50 percent. During measurement period 2015, the discount rate was increased from 7.50 percent to 7.65 percent. There is no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. During measurement period 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

COUNTY OF SANTA CLARA
 Required Supplementary Information (Unaudited)
 Schedules of Changes in Net Pension Liability and Related Ratios
 During the Measurement Period
 (In thousands)

Fiscal Year	County Safety Plan				
	2019	2018	2017	2016	2015
Measurement period	2018	2017	2016	2015	2014
Total pension liability					
Service cost	\$ 66,572	\$ 63,070	\$ 54,447	\$ 51,239	\$ 51,470
Interest	204,544	196,190	188,295	179,112	169,583
Changes of assumptions	(15,100)	168,441	-	(44,951)	-
Differences between expected and actual experience	3,911	(7,712)	6,499	17,045	-
Benefit payments, including refunds of employee contributions	(137,334)	(128,579)	(121,936)	(114,909)	(110,678)
Net change in total pension liability	122,593	291,410	127,305	87,536	110,375
Total pension liability, beginning	2,907,330	2,615,920	2,488,615	2,401,079	2,290,704
Total pension liability, ending	\$ 3,029,923	\$ 2,907,330	\$ 2,615,920	\$ 2,488,615	\$ 2,401,079
Plan fiduciary net position					
Contributions, employer	\$ 83,273	\$ 79,270	\$ 68,666	\$ 60,423	\$ 58,722
Contributions, employee	22,962	21,074	19,875	19,683	22,482
Net investment income	166,258	199,327	9,264	40,380	272,598
Plan to plan resource movement	(113)	65	(129)	1	-
Benefit payments, including refunds of employee contributions	(137,334)	(128,579)	(121,936)	(114,909)	(110,678)
Administrative expenses	(3,064)	(2,654)	(1,111)	(2,048)	-
Other miscellaneous expenses	(5,818)	-	-	-	-
Net change in plan fiduciary net position	126,164	168,503	(25,371)	3,530	243,124
Plan fiduciary net position, beginning	1,966,171	1,797,668	1,823,039	1,819,509	1,576,385
Plan fiduciary net position, ending	\$ 2,092,335	\$ 1,966,171	\$ 1,797,668	\$ 1,823,039	\$ 1,819,509
Plan net pension liability	\$ 937,588	\$ 941,159	\$ 818,252	\$ 665,576	\$ 581,570
Plan fiduciary net position as a percentage of the total pension liability	69.06%	67.63%	68.72%	73.26%	75.78%
Covered payroll	\$ 226,938	\$ 213,250	\$ 206,183	\$ 191,470	\$ 182,993
Plan net liability as a percentage of covered payroll	413.15%	441.34%	396.86%	347.61%	317.81%

Note to schedule:

Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only five years of information is shown.

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2017 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions - During measurement period 2014, the discount rate was 7.50 percent. During measurement period 2015, the discount rate was increased from 7.50 percent to 7.65 percent. There is no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. During measurement period 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017..

COUNTY OF SANTA CLARA
 Required Supplementary Information (Unaudited)
 Schedules of Changes in Net Pension Liability and Related Ratios
 During the Measurement Period
 (In thousands)

Fiscal Year	Central Fire Safety Plan				
	2019	2018	2017	2016	2015
Measurement period	2018	2017	2016	2015	2014
Total pension liability					
Service cost	\$ 9,846	\$ 10,048	\$ 8,681	\$ 8,357	\$ 8,571
Interest	38,844	37,901	37,172	36,014	34,357
Changes of assumptions	(2,238)	31,032	-	(8,633)	-
Differences between expected and actual experience	(5,008)	(7,354)	(4,405)	2,264	-
Benefit payments, including refunds of employee contributions	(28,327)	(26,497)	(25,561)	(24,442)	(23,106)
Net change in total pension liability	13,117	45,130	15,887	13,560	19,822
Total pension liability, beginning	559,763	514,633	498,746	485,186	465,364
Total pension liability, ending	\$ 572,880	\$ 559,763	\$ 514,633	\$ 498,746	\$ 485,186
Plan fiduciary net position					
Contributions, employer	\$ 14,645	\$ 12,953	\$ 12,006	\$ 11,070	\$ 10,233
Contributions, employee	3,301	3,072	3,102	2,986	3,886
Net investment income	32,474	40,218	1,838	8,111	55,532
Plan to plan resource movement	(1)	-	-	(3)	-
Benefit payments, including refunds of employee contributions	(28,327)	(26,497)	(25,561)	(24,442)	(23,106)
Administrative expenses	(602)	(528)	(222)	(412)	-
Other miscellaneous expenses	(1,144)	-	-	-	-
Net change in plan fiduciary net position	20,346	29,218	(8,837)	(2,690)	46,545
Plan fiduciary net position, beginning	386,501	357,283	366,120	368,810	322,265
Plan fiduciary net position, ending	\$ 406,847	\$ 386,501	\$ 357,283	\$ 366,120	\$ 368,810
Plan net pension liability	\$ 166,033	\$ 173,262	\$ 157,350	\$ 132,626	\$ 116,376
Plan fiduciary net position as a percentage of the total pension liability	71.02%	69.05%	69.42%	73.41%	76.01%
Covered payroll	\$ 35,749	\$ 33,459	\$ 33,375	\$ 31,992	\$ 31,131
Plan net liability as a percentage of covered payroll	464.44%	517.83%	471.46%	414.56%	373.83%

Note to schedule:

Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only five years of information is shown.

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2017 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions - During measurement period 2014, the discount rate was 7.50 percent. During measurement period 2015, the discount rate was increased from 7.50 percent to 7.65 percent. There is no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. During measurement period 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

COUNTY OF SANTA CLARA
 Required Supplementary Information (Unaudited)
 Schedules of Changes in Net Pension Liability and Related Ratios
 During the Measurement Period
 (In thousands)

Fiscal Year	Housing Authority Miscellaneous Plan				
	2019	2018	2017	2016	2015
Measurement period	2018	2017	2016	2015	2014
Total pension liability					
Service cost	\$ 1,667	\$ 1,682	\$ 1,376	\$ 1,328	\$ 1,413
Interest	4,245	4,010	3,735	3,523	3,357
Changes of assumptions	(463)	3,589	-	(933)	-
Differences between expected and actual experience	204	400	(188)	(539)	-
Benefit payments, including refunds of employee contributions	(2,262)	(2,031)	(1,959)	(1,857)	(2,065)
Net change in total pension liability	3,391	7,650	2,964	1,522	2,705
Total pension liability, beginning	59,922	52,272	49,308	47,786	45,081
Total pension liability, ending	\$ 63,313	\$ 59,922	\$ 52,272	\$ 49,308	\$ 47,786
Plan fiduciary net position					
Contributions, employer	\$ 11,803	\$ 821	\$ 773	\$ 724	\$ 825
Contributions, employee	801	715	680	654	670
Net investment income	5,688	6,350	269	1,238	8,433
Benefit payments, including refunds of employee contributions	(2,262)	(2,031)	(1,959)	(1,857)	(2,065)
Administrative expenses	(98)	(84)	(35)	(64)	-
Other miscellaneous expenses	(186)	-	-	-	-
Net change in plan fiduciary net position	15,746	5,771	(272)	695	7,863
Plan fiduciary net position, beginning	62,785	57,014	57,286	56,591	48,728
Plan fiduciary net position, ending	\$ 78,531	\$ 62,785	\$ 57,014	\$ 57,286	\$ 56,591
Plan net pension liability (asset)	\$ (15,218)	\$ (2,863)	\$ (4,742)	\$ (7,978)	\$ (8,805)
Plan fiduciary net position as a percentage of the total pension liability	124.04%	104.78%	109.07%	116.18%	118.43%
Covered payroll	\$ 10,764	\$ 10,830	\$ 9,799	\$ 9,296	\$ 9,370
Plan net liability (asset) as a percentage of covered payroll	-141.38%	-26.44%	-48.39%	-85.82%	-93.97%

Note to schedule:

Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only five years of information is shown.

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2017 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions - During measurement period 2014, the discount rate was 7.50 percent. During measurement period 2015, the discount rate was increased from 7.50 percent to 7.65 percent. There is no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. During measurement period 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

COUNTY OF SANTA CLARA
 Required Supplementary Information (Unaudited)
 Schedules of the Cost Sharing Plans' Proportionate Share of Net Pension Liability
 During the Measurement Period
 (In thousands)

		Central Fire Miscellaneous Plan				
Fiscal Year		2019	2018	2017	2016	2015
Measurement period		2018	2017	2016	2015	2014
Plan's proportion of the net pension liability (NPL)		0.16%	0.16%	0.19%	0.17%	0.16%
Plan's proportion share of the NPL	\$	15,206	\$ 15,763	\$ 13,975	\$ 11,707	\$ 10,002
Plan's covered payroll	\$	7,943	\$ 7,205	\$ 6,608	\$ 5,625	\$ 5,636
Plan's proportionate share of the NPL as a percentage of its covered payroll		191.44%	218.78%	211.49%	208.11%	177.45%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability		75.26%	73.31%	74.06%	78.40%	83.03%
		Health Authority Miscellaneous Plan				
Fiscal Year		2019	2018	2017	2016	2015
Measurement period		2018	2017	2016	2015	2014
Plan's proportion of the net pension liability (asset)		-0.02%	0.02%	0.08%	0.07%	0.08%
Plan's proportion share of the net pension liability (asset)	\$	(1,979)	\$ 1,825	\$ 6,857	\$ 5,018	\$ 4,884
Plan's covered payroll	\$	19,966	\$ 16,512	\$ 11,011	\$ 7,427	\$ 8,850
Plan's proportionate share of the net pension liability (asset) as a percentage of its covered payroll		-9.91%	11.05%	62.27%	67.56%	55.19%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability		75.26%	73.31%	74.06%	78.40%	83.03%

Note to schedule:

Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only five years of information is shown.

Benefit Changes - The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2017 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions - During measurement period 2014, the discount rate was 7.50 percent. During measurement period 2015, the discount rate was increased from 7.50 percent to 7.65 percent. There is no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. During measurement period 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedules of Pension Plans Contributions

June 30, 2019

(In thousands)

County Miscellaneous Plan						
Fiscal Year Ended	2019	2018	2017	2016	2015	2014
Actuarially determined contributions (ADC)	\$ 313,090	\$ 268,362	\$ 259,733	\$ 232,045	\$ 200,542	\$ 180,535
Contributions in relation to the ADC	(313,090)	(268,362)	(259,733)	(232,045)	(200,542)	(180,535)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 1,445,827	\$ 1,450,851	\$ 1,366,788	\$ 1,276,163	\$ 1,196,655	\$ 1,143,056
Contributions as a percentage of covered payroll	21.65%	18.50%	19.00%	18.18%	16.76%	15.79%

County Safety Plan						
Fiscal Year Ended	2019	2018	2017	2016	2015	2014
Actuarially determined contributions (ADC)	\$ 94,809	\$ 83,273	\$ 79,270	\$ 68,666	\$ 60,423	\$ 58,722
Contributions in relation to the ADC	(94,809)	(83,273)	(79,270)	(68,666)	(60,423)	(58,722)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 226,237	\$ 226,938	\$ 213,250	\$ 206,183	\$ 191,470	\$ 182,993
Contributions as a percentage of covered payroll	41.91%	36.69%	37.17%	33.30%	31.56%	32.09%

Central Fire Safety Plan						
Fiscal Year Ended	2019	2018	2017	2016	2015	2014
Actuarially determined contributions (ADC)	\$ 17,029	\$ 14,645	\$ 12,953	\$ 12,006	\$ 11,070	\$ 10,233
Contributions in relation to the ADC	(17,029)	(14,645)	(12,953)	(12,006)	(11,070)	(10,233)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 40,179	\$ 35,749	\$ 33,459	\$ 33,375	\$ 31,992	\$ 31,131
Contributions as a percentage of covered payroll	42.38%	40.97%	38.71%	35.97%	34.60%	32.87%

(Continued)

See accompanying notes to the schedule of the pension plans contributions.

Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only six years of information is shown.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedules of Pension Plans Contributions

June 30, 2019

(In thousands)

	Central Fire Miscellaneous Plan					
Fiscal Year Ended	2019	2018	2017	2016	2015	2014
Contractually required contribution (actuarially determined)	\$ 2,084	\$ 1,826	\$ 1,721	\$ 1,551	\$ 1,363	\$ 1,275
Contributions in relation to the contractually required contribution	(2,084)	(1,826)	(1,721)	(1,551)	(1,363)	(1,275)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 8,982	\$ 7,943	\$ 7,205	\$ 6,608	\$ 5,625	\$ 5,636
Contributions as a percentage of covered payroll	23.20%	22.99%	23.89%	23.47%	24.23%	22.62%

	Housing Authority Miscellaneous Plan					
Fiscal Year Ended	2019	2018	2017	2016	2015	2014
Actuarially determined contributions (ADC)	\$ 1,045	\$ 908	\$ 821	\$ 773	\$ 724	\$ 825
Contributions in relation to the ADC	(1,045)	(11,803)	(821)	(773)	(724)	(825)
Contribution deficiency (excess)	\$ -	\$ (10,895)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 13,348	\$ 10,764	\$ 10,830	\$ 9,799	\$ 9,296	\$ 9,370
Contributions as a percentage of covered payroll	7.83%	109.65%	7.58%	7.89%	7.79%	8.80%

	Health Authority Miscellaneous Plan					
Fiscal Year Ended	2019	2018	2017	2016	2015	2014
Contractually required contribution (actuarially determined)	\$ 1,670	\$ 1,198	\$ 1,322	\$ 911	\$ 961	\$ 886
Contributions in relation to the contractually required contribution	(1,670)	(4,427)	(5,901)	(911)	(961)	(886)
Contribution deficiency (excess)	\$ -	\$ (3,229)	\$ (4,579)	\$ -	\$ -	\$ -
Covered payroll	\$ 23,706	\$ 19,966	\$ 16,512	\$ 11,011	\$ 7,427	\$ 8,850
Contributions as a percentage of covered payroll	7.04%	22.17%	35.74%	8.27%	12.94%	10.01%

See accompanying notes to the schedule of the pension plans contributions.

Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only six years of information is shown.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Notes to the Schedules of Pension Plans Contributions

June 30, 2019

(In thousands)

The actuarial methods and assumptions used to set the actuarially determined contributions for the fiscal year ended June 30, 2019 for all of the County's pension plans were as follows:

Actuarially determined contribution for fiscal year.....	June 30, 2019
Actuarial valuation date.....	June 30, 2016
Actuarial cost method.....	Entry age normal
Asset valuation method.....	Actuarial value of assets
Inflation.....	2.75%
Salary increases.....	Varies by entry age and service
Payroll growth.....	3.00%
Investment rate of return.....	7.375%, net of pension plan investment and administrative expenses, includes inflation
Retirement age.....	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period 1997 to 2011.
Mortality.....	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedules of Changes in Net OPEB Liability and Related Ratios

During the Measurement Period

(In thousands)

Fiscal Year	County Plan	
	2019	2018
Measurement period	2018	2017
Total OPEB liability		
Service cost	\$ 59,565	\$ 65,781
Interest	151,194	157,259
Changes of assumptions	39,454	(41,189)
Differences between expected and actual experience	(32,527)	(182,885)
Benefit payments, including refunds of employee contributions	(82,140)	(76,669)
Net change in total OPEB liability	135,546	(77,703)
Total OPEB liability, beginning	2,141,417	2,219,120
Total OPEB liability, ending	\$ 2,276,963	\$ 2,141,417
Plan fiduciary net position		
Contributions, employer	\$ 167,142	\$ 147,324
Contributions, employee	6,315	6,024
Net investment income	68,397	75,815
Benefit payments, including refunds of employee contributions	(82,140)	(76,669)
Administrative expenses	(1,607)	(386)
Net change in plan fiduciary net position	158,107	152,108
Plan fiduciary net position, beginning	857,822	705,714
Plan fiduciary net position, ending	\$ 1,015,929	\$ 857,822
Plan net OPEB liability	\$ 1,261,034	\$ 1,283,595
Plan fiduciary net position as a percentage of the total OPEB liability	44.62%	40.06%
Covered payroll	\$ 1,675,731	\$ 1,589,148
Plan net liability as a percentage of covered payroll	75.25%	80.77%

Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only two years of information is shown.

Changes of Assumptions - During measurement period 2018, price inflation rate decreased from 2.75 percent to 2.50 percent, wage inflation decreased from 3.00 percent to 2.75 percent, and projected payroll increases as well as medical cost trend rate were adjusted.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedules of Changes in Net OPEB Liability and Related Ratios

During the Measurement Period

(In thousands)

Fiscal Year	Central Fire Plan	
	2019	2018
Measurement period	2018	2017
Total OPEB liability		
Service cost	\$ 1,200	\$ 1,200
Interest	3,618	3,541
experience	1,225	-
Benefit payments, including refunds of employee contributions	(4,242)	(3,138)
Net change in total OPEB liability	1,801	1,603
Total OPEB liability, beginning	51,197	49,594
Total OPEB liability, ending	\$ 52,998	\$ 51,197
Plan fiduciary net position		
Contributions, employer	\$ 7,331	\$ 5,953
Net investment income	1,816	1,905
Benefit payments, including refunds of employee contributions	(4,242)	(3,138)
Administrative expenses	(12)	(10)
Net change in plan fiduciary net position	4,893	4,710
Plan fiduciary net position, beginning	20,717	16,007
Plan fiduciary net position, ending	\$ 25,610	\$ 20,717
Plan net OPEB liability	\$ 27,388	\$ 30,480
Plan fiduciary net position as a percentage of the total OPEB liability	48.32%	40.47%
Covered payroll	\$ 43,683	\$ 40,282
Plan net liability as a percentage of covered payroll	62.70%	75.67%

Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only two years of information is shown.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedules of Changes in Net OPEB Liability and Related Ratios

During the Measurement Period

(In thousands)

Fiscal Year	Housing Authority Plan	
	2019	2018
Measurement period	2018	2017
Total OPEB liability		
Service cost	\$ 426	\$ 238
Interest	654	731
Changes of assumptions	-	2,479
Differences between expected and actual experience	-	(1,984)
Benefit payments, including refunds of employee contributions	(567)	(624)
Net change in total OPEB liability	513	840
Total OPEB liability, beginning	11,763	10,923
Total OPEB liability, ending	\$ 12,276	\$ 11,763
Plan fiduciary net position		
Contributions, employer	\$ 3,181	\$ 1,059
Net investment income	605	664
Benefit payments, including refunds of employee contributions	(567)	(624)
Administrative expenses	(19)	(5)
Net change in plan fiduciary net position	3,200	1,094
Plan fiduciary net position, beginning	10,037	8,943
Plan fiduciary net position, ending	\$ 13,237	\$ 10,037
Plan net OPEB liability (asset)	\$ (961)	\$ 1,726
Plan fiduciary net position as a percentage of the total OPEB liability	107.83%	85.33%
Covered payroll	\$ 12,060	\$ 11,058
Plan net liability (asset) as a percentage of covered payroll	-7.97%	15.61%

Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only two years of information is shown.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedules of Changes in Net OPEB Liability and Related Ratios

During the Measurement Period

(In thousands)

Fiscal Year	Health Authority Plan	
	2019	2018
Measurement period	2018	2017
Total OPEB liability		
Service cost	\$ 1,119	\$ 756
Interest	805	708
Changes of assumptions	-	132
Differences between expected and actual experience	-	(15)
Benefit payments, including refunds of employee contributions	(478)	(542)
Net change in total OPEB liability	1,446	1,039
Total OPEB liability, beginning	11,046	10,007
Total OPEB liability, ending	\$ 12,492	\$ 11,046
Plan fiduciary net position		
Contributions, employer	\$ 3,588	\$ 1,142
Net investment income	518	552
Benefit payments, including refunds of employee contributions	(478)	(542)
Administrative expenses	(12)	(4)
Net change in plan fiduciary net position	3,616	1,148
Plan fiduciary net position, beginning	6,337	5,189
Plan fiduciary net position, ending	\$ 9,953	\$ 6,337
Plan net OPEB liability	\$ 2,539	\$ 4,709
Plan fiduciary net position as a percentage of the total OPEB liability	79.67%	57.37%
Covered payroll	\$ 20,046	\$ 17,217
Plan net liability as a percentage of covered payroll	12.67%	27.35%

Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only two years of information is shown.

Changes of Assumptions - During measurement period 2018, demographic assumptions were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Schedules of OPEB Plans Contributions

June 30, 2019

(In thousands)

	County Plan		
	2019	2018	2017
Fiscal Year Ended			
Actuarially determined contributions (ADC)	\$ 134,660	\$ 128,588	\$ 154,902
Contributions in relation to the ADC	(122,412)	(167,142)	(147,324)
Contribution deficiency (excess)	<u>\$ 12,248</u>	<u>\$ (38,554)</u>	<u>\$ 7,578</u>
Covered payroll	\$ 1,728,517	\$ 1,675,731	\$ 1,589,148
Contributions as a percentage of covered payroll	7.08%	9.97%	9.27%

	Central Fire Plan		
	2019	2018	2017
Fiscal Year Ended			
Actuarially determined contributions (ADC)	\$ 3,405	\$ 7,331	\$ 5,953
Contributions in relation to the ADC	(3,405)	(7,331)	(5,953)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 43,683	\$ 43,683	\$ 40,282
Contributions as a percentage of covered payroll	7.79%	16.78%	14.78%

	Housing Authority Plan		
	2019	2018	2017
Fiscal Year Ended			
Actuarially determined contributions (ADC)	\$ 391	\$ 594	\$ 1,059
Contributions in relation to the ADC	(547)	(3,181)	(1,059)
Contribution deficiency (excess)	<u>\$ (156)</u>	<u>\$ (2,587)</u>	<u>\$ -</u>
Covered payroll	\$ 13,348	\$ 12,060	\$ 11,058
Contributions as a percentage of covered payroll	4.10%	26.38%	9.58%

	Health Authority Plan		
	2019	2018	2017
Fiscal Year Ended			
Actuarially determined contributions (ADC)	\$ 1,269	\$ 1,427	\$ 1,142
Contributions in relation to the ADC	(2,601)	(3,588)	(1,142)
Contribution deficiency (excess)	<u>\$ (1,332)</u>	<u>\$ (2,161)</u>	<u>\$ -</u>
Covered payroll	\$ 24,360	\$ 20,046	\$ 17,217
Contributions as a percentage of covered payroll	10.68%	17.90%	6.63%

See accompanying notes to the schedule of the OPEB plans contributions.

Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only three years of information is shown.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Notes to the Schedules of OPEB Plans Contributions

June 30, 2019

(In thousands)

The actuarial methods and assumptions used to set the actuarially determined contributions for the fiscal year ended June 30, 2019 for all of the County's OPEB plans were as follows:

	County Plan	Central Fire Plan	Housing Authority Plan	Health Authority Plan
Actuarially determined contribution for fiscal year.....	June 30, 2019	June 30, 2019	June 30, 2019	June 30, 2019
Actuarial valuation date.....	June 30, 2018	June 30, 2017	July 1, 2017	June 30, 2018
Actuarial cost method.....	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Asset valuation method.....	Market value	Market value	Market value	Market value
Inflation.....	2.50%	3.00%	2.75%	2.75%
Salary increases.....	Increase of 3.30% to 16.90% depending on age, service and type of employment.	Varies by entry age and service	3.25%	Varies by entry age and service
Payroll growth.....	2.75%	3.00%	3.00%	2.75%
Investment rate of return.....	7.00%	7.28%	5.50%	6.75%
Healthcare cost trend rate.....	Medicare and Non- Medicare cost trend rate of 6.5% and 7%, respectively, for initial year, graded down by 0.25% per year until 4.50% ultimate rate is reached. Medicare Part B cost trend rate of 4.0%.	Initial healthcare trend rate of 6.5% graded down until 4.0% ultimate rate is reached.	Medical premium: Healthcare cost trend rate of 7.5% for initial year, graded down by 0.5% per year until 5.0% ultimate rate is reached. PMEHCA, dental and vision premium: 4.5%.	Initial healthcare trend rate of 7.5% graded down until 4.25% and 4.5% ultimate rate is reached for ages pre- 65 and ages post-65, respectively.
Mortality and other actuarial assumptions....	CalPERS 2014 experience study report using data for the period from 1997 to 2011.	CalPERS 2014 experience study report using data for the period from 1997 to 2011.	MacLeod Watts Scale 2017 applied generationally.	CalPERS 2017 experience study report using data for the period from 1997 to 2015.

COUNTY OF SANTA CLARA

General Fund

The General Fund is the general operating fund of the County. It accounts for all financial activities except those required to be accounted for in another fund. The accompanying Budgetary Comparison Schedule represents the primary expense classification of services provided by the County through the General Fund.

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
 Budgetary Comparison Schedule
 General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2019
 (In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
Budgetary fund balances, beginning of year	\$ 815,660	\$ 815,660	\$ 815,660	\$ -
Resources (inflows):				
Taxes	1,245,150	1,245,150	1,350,064	104,914
Licenses and permits	9,800	9,800	17,155	7,355
Fines, forfeitures, and penalties	39,168	39,168	52,874	13,706
Interest and investment income	29,081	29,598	70,571	40,973
Intergovernmental revenues	1,345,363	1,409,273	1,579,189	169,916
Charges for services	119,862	124,010	125,670	1,660
Other revenue	20,871	24,834	40,076	15,242
Other financing sources	6,000	6,000	6,004	4
Interfund transfers	450,153	505,081	107,862	(397,219)
Total resources (inflows) available for appropriation	<u>3,265,448</u>	<u>3,392,914</u>	<u>3,349,465</u>	<u>(43,449)</u>
Charges to appropriations (outflows):				
General government:				
Supervisorial District 1				
Salaries and benefits	1,737	1,747	1,364	383
Services and supplies	191	191	95	96
Total Supervisorial District 1	<u>1,928</u>	<u>1,938</u>	<u>1,459</u>	<u>479</u>
Supervisorial District 2				
Salaries and benefits	1,743	1,753	1,611	142
Services and supplies	185	185	137	48
Total Supervisorial District 2	<u>1,928</u>	<u>1,938</u>	<u>1,748</u>	<u>190</u>
Supervisorial District 3				
Salaries and benefits	1,737	1,724	1,722	2
Services and supplies	214	253	200	53
Total Supervisorial District 3	<u>1,951</u>	<u>1,977</u>	<u>1,922</u>	<u>55</u>
Supervisorial District 4				
Salaries and benefits	1,737	1,747	1,458	289
Services and supplies	191	191	130	61
Total Supervisorial District 4	<u>1,928</u>	<u>1,938</u>	<u>1,588</u>	<u>350</u>
Supervisorial District 5				
Salaries and benefits	1,884	1,775	1,584	191
Services and supplies	225	345	317	28
Total Supervisorial District 5	<u>2,109</u>	<u>2,120</u>	<u>1,901</u>	<u>219</u>
Clerk - Board of Supervisors				
Salaries and benefits	5,154	5,288	5,172	116
Services and supplies	9,119	10,435	7,844	2,591
Expenditure reimbursements	(112)	(112)	(83)	(29)
Total Clerk - Board of Supervisors	<u>14,161</u>	<u>15,611</u>	<u>12,933</u>	<u>2,678</u>

(Continued)

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
 Budgetary Comparison Schedule
 General Fund - Budgetary Basis
 For the Fiscal Year Ended June 30, 2019
 (In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
General government (continued):				
Office of the County Executive				
Salaries and benefits	\$ 38,731	\$ 38,656	\$ 35,145	\$ 3,511
Services and supplies	37,164	49,524	32,209	17,315
Capital outlay	-	603	519	84
Expenditure reimbursements	<u>(3,146)</u>	<u>(3,727)</u>	<u>(3,434)</u>	<u>(293)</u>
Total Office of the County Executive	<u>72,749</u>	<u>85,056</u>	<u>64,439</u>	<u>20,617</u>
Risk Management				
Salaries and benefits	1,975	2,019	1,892	127
Services and supplies	307	306	204	102
Expenditure reimbursements	<u>(1,328)</u>	<u>(2,160)</u>	<u>(2,096)</u>	<u>(64)</u>
Total Risk Management	<u>954</u>	<u>165</u>	<u>-</u>	<u>165</u>
Controller-Treasurer				
Salaries and benefits	19,885	20,038	19,000	1,038
Services and supplies	25,189	46,758	21,256	25,502
Capital outlay	-	-	(13)	13
Expenditure reimbursements	<u>(142,865)</u>	<u>(166,752)</u>	<u>(164,717)</u>	<u>(2,035)</u>
Interfund transfers	<u>-</u>	<u>2,350</u>	<u>2,008</u>	<u>342</u>
Total Controller-Treasurer	<u>(97,791)</u>	<u>(97,606)</u>	<u>(122,466)</u>	<u>24,860</u>
Department of Tax and Collections				
Salaries and benefits	20,950	20,169	19,192	977
Services and supplies	8,136	10,037	7,606	2,431
Capital outlay	-	617	617	-
Expenditure reimbursements	<u>(2,565)</u>	<u>(2,565)</u>	<u>(2,158)</u>	<u>(407)</u>
Total Department of Tax and Collections	<u>26,521</u>	<u>28,258</u>	<u>25,257</u>	<u>3,001</u>
Office of the Assessor				
Salaries and benefits	37,673	37,585	36,035	1,550
Services and supplies	<u>6,072</u>	<u>6,319</u>	<u>3,205</u>	<u>3,114</u>
Total Office of the Assessor	<u>43,745</u>	<u>43,904</u>	<u>39,240</u>	<u>4,664</u>
Purchasing				
Salaries and benefits	12,778	12,928	9,465	3,463
Services and supplies	7,111	7,257	2,679	4,578
Expenditure reimbursements	<u>(646)</u>	<u>(646)</u>	<u>(442)</u>	<u>(204)</u>
Total Purchasing	<u>19,243</u>	<u>19,539</u>	<u>11,702</u>	<u>7,837</u>
Office of Budget and Analysis - Special Programs				
Salaries and benefits	<u>(6,133)</u>	<u>(6,133)</u>	-	<u>(6,133)</u>
Services and supplies	4,393	4,312	2,279	2,033
Interfund transfers	<u>102,807</u>	<u>105,146</u>	<u>76,870</u>	<u>28,276</u>
Total Office of Budget and Analysis - Special Programs	<u>101,067</u>	<u>103,325</u>	<u>79,149</u>	<u>24,176</u>
Office of the County Counsel				
Salaries and benefits	41,786	40,568	38,847	1,721
Services and supplies	12,807	16,376	14,468	1,908
Capital outlay	7	36	29	7
Expenditure reimbursements	<u>(24,675)</u>	<u>(24,675)</u>	<u>(26,244)</u>	<u>1,569</u>
Total Office of the County Counsel	<u>29,925</u>	<u>32,305</u>	<u>27,100</u>	<u>5,205</u>

(Continued)

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
 Budgetary Comparison Schedule
 General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2019
 (In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
General government (continued):				
Personnel				
Salaries and benefits	\$ 26,124	\$ 26,516	\$ 25,588	\$ 928
Services and supplies	9,322	9,541	8,466	1,075
Expenditure reimbursements	(12,581)	(12,581)	(12,080)	(501)
Total Personnel	<u>22,865</u>	<u>23,476</u>	<u>21,974</u>	<u>1,502</u>
Registrar of Voters				
Salaries and benefits	12,625	15,682	15,585	97
Services and supplies	11,807	12,594	12,406	188
Capital outlay	2,550	2,550	42	2,508
Total Registrar of Voters	<u>26,982</u>	<u>30,826</u>	<u>28,033</u>	<u>2,793</u>
Information Services				
Salaries and benefits	(451)	484	427	57
Services and supplies	120,798	107,530	18,983	88,547
Capital outlay	3,984	29,335	25,789	3,546
Expenditure reimbursements	(1,700)	(1,700)	(1,596)	(104)
Total Information Services	<u>122,631</u>	<u>135,649</u>	<u>43,603</u>	<u>92,046</u>
Communication				
Salaries and benefits	20,927	20,832	18,782	2,050
Services and supplies	9,829	9,702	8,760	942
Capital outlay	270	270	267	3
Expenditure reimbursements	(8,476)	(8,476)	(8,329)	(147)
Total Communication	<u>22,550</u>	<u>22,328</u>	<u>19,480</u>	<u>2,848</u>
Department of Planning & Development				
Salaries and benefits	15,472	14,937	13,893	1,044
Services and supplies	4,476	5,873	5,355	518
Capital outlay	266	653	637	16
Expenditure reimbursements	(117)	(117)	(48)	(69)
Total Department of Planning & Development	<u>20,097</u>	<u>21,346</u>	<u>19,837</u>	<u>1,509</u>

(Continued)

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
 Budgetary Comparison Schedule
 General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2019
 (In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
General government (continued):				
Facilities and Fleet Department				
Salaries and benefits	\$ 43,402	\$ 43,706	\$ 40,083	\$ 3,623
Services and supplies	99,106	104,393	94,623	9,770
Capital outlay	681	681	538	143
Expenditure reimbursements	(60,298)	(63,039)	(61,039)	(2,000)
Interfund transfers	219,041	253,642	182,821	70,821
Total Facilities and Fleet Department	<u>301,932</u>	<u>339,383</u>	<u>257,026</u>	<u>82,357</u>
General government - subtotals:				
Salaries and benefits	299,736	302,021	286,845	15,176
Services and supplies	366,642	402,122	241,222	160,900
Capital outlay	7,758	34,745	28,425	6,320
Expenditure reimbursements	(258,509)	(286,550)	(282,266)	(4,284)
Interfund transfers	321,848	361,138	261,699	99,439
Total general government	<u>737,475</u>	<u>813,476</u>	<u>535,925</u>	<u>277,551</u>
Public protection:				
Clerk Recorder				
Salaries and benefits	7,408	7,469	6,907	562
Services and supplies	1,447	1,442	1,322	120
Total Clerk Recorder	<u>8,855</u>	<u>8,911</u>	<u>8,229</u>	<u>682</u>
District Attorney				
Salaries and benefits	120,326	121,211	120,091	1,120
Services and supplies	20,357	26,378	23,074	3,304
Capital outlay	861	1,387	720	667
Expenditure reimbursements	(12,369)	(14,703)	(12,549)	(2,154)
Total District Attorney	<u>129,175</u>	<u>134,273</u>	<u>131,336</u>	<u>2,937</u>
Public Defender				
Salaries and benefits	60,057	59,772	59,670	102
Services and supplies	8,892	9,524	8,972	552
Capital outlay	26	104	104	-
Expenditure reimbursements	(258)	(258)	(258)	-
Total Public Defender	<u>68,717</u>	<u>69,142</u>	<u>68,488</u>	<u>654</u>
Pretrial Services				
Salaries and benefits	6,580	6,527	6,032	495
Services and supplies	1,906	2,095	2,089	6
Expenditure reimbursements	(277)	(277)	(40)	(237)
Total Pretrial Services	<u>8,209</u>	<u>8,345</u>	<u>8,081</u>	<u>264</u>
Criminal Justice Support				
Services and supplies	48,969	51,064	48,558	2,506
Interfund transfers	1,369	2,869	-	2,869
Total Criminal Justice Support	<u>50,338</u>	<u>53,933</u>	<u>48,558</u>	<u>5,375</u>

(Continued)

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2019
(In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	Variance with Final Budget Positive (Negative)
Public protection (continued):				
Sheriff Administration				
Salaries and benefits	\$ 155,894	\$ 155,983	\$ 153,129	\$ 2,854
Services and supplies	29,860	27,975	26,172	1,803
Capital outlay	360	1,638	958	680
Expenditure reimbursements	<u>(4,749)</u>	<u>(5,021)</u>	<u>(7,781)</u>	<u>2,760</u>
Total Sheriff Administration	<u>181,365</u>	<u>180,575</u>	<u>172,478</u>	<u>8,097</u>
Sheriff - Department of Correction Services				
Salaries and benefits	<u>155,956</u>	<u>171,736</u>	<u>170,109</u>	<u>1,627</u>
Department of Correction				
Salaries and benefits	42,559	40,785	40,212	573
Services and supplies	69,679	78,194	78,228	(34)
Capital outlay	2,019	2,109	89	2,020
Expenditure reimbursements	<u>(187)</u>	<u>(187)</u>	<u>(241)</u>	<u>54</u>
Total Department of Correction	<u>114,070</u>	<u>120,901</u>	<u>118,288</u>	<u>2,613</u>
Probation Department				
Salaries and benefits	159,461	161,340	160,136	1,204
Services and supplies	32,315	34,536	28,614	5,922
Capital outlay	55	82	28	54
Expenditure reimbursements	<u>(403)</u>	<u>(403)</u>	<u>(368)</u>	<u>(35)</u>
Total Probation Department	<u>191,428</u>	<u>195,555</u>	<u>188,410</u>	<u>7,145</u>
Department of Agriculture/Weights & Measures/ Animal Control				
Salaries and benefits	13,703	13,872	13,435	437
Services and supplies	4,840	5,861	4,071	1,790
Capital outlay	-	92	22	70
Interfund transfers	212	462	330	132
Expenditure reimbursements	<u>(4,858)</u>	<u>(4,858)</u>	<u>(4,633)</u>	<u>(225)</u>
Total Department of Agriculture/ Weights & Measures/Animal Control	<u>13,897</u>	<u>15,429</u>	<u>13,225</u>	<u>2,204</u>
Medical Examiner - Coroner				
Salaries and benefits	5,585	5,511	5,423	88
Services and supplies	1,060	1,157	1,154	3
Capital outlay	<u>85</u>	<u>123</u>	<u>85</u>	<u>38</u>
Total Medical Examiner - Coroner	<u>6,730</u>	<u>6,791</u>	<u>6,662</u>	<u>129</u>
Public protection - subtotals:				
Salaries and benefits	727,529	744,206	735,144	9,062
Services and supplies	219,325	238,226	222,254	15,972
Capital outlay	3,406	5,535	2,006	3,529
Interfund transfers	1,581	3,331	330	3,001
Expenditure reimbursements	<u>(23,101)</u>	<u>(25,707)</u>	<u>(25,870)</u>	<u>163</u>
Total public protection	<u>928,740</u>	<u>965,591</u>	<u>933,864</u>	<u>31,727</u>

(Continued)

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
 Budgetary Comparison Schedule
 General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2019
 (In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Public ways and facilities:				
Measure B				
Services and supplies	\$ 31	\$ 31	\$ -	\$ 31
Total public ways and facilities	31	31	-	31
Health and sanitation:				
Health Services Administration				
Salaries and benefits	71,118	71,700	69,082	2,618
Services and supplies	40,979	46,922	37,272	9,650
Capital outlay	-	117	27	90
Expenditure reimbursements	<u>(2,606)</u>	<u>(3,052)</u>	<u>(2,680)</u>	<u>(372)</u>
Total Health Services Administration	<u>109,491</u>	<u>115,687</u>	<u>103,701</u>	<u>11,986</u>
Custody Health Services				
Salaries and benefits	55,633	61,274	58,698	2,576
Services and supplies	35,436	33,496	33,034	462
Capital outlay	629	629	281	348
Expenditure reimbursements	<u>(86,282)</u>	<u>(90,370)</u>	<u>(84,314)</u>	<u>(6,056)</u>
Total Custody Health Services	<u>5,416</u>	<u>5,029</u>	<u>7,699</u>	<u>(2,670)</u>
Behavioral Health Services				
Salaries and benefits	103,147	107,540	93,342	14,198
Services and supplies	426,415	488,753	436,455	52,298
Expenditure reimbursements	<u>(15,945)</u>	<u>(16,566)</u>	<u>(12,609)</u>	<u>(3,957)</u>
Total Behavioral Health Services	<u>513,617</u>	<u>579,727</u>	<u>517,188</u>	<u>62,539</u>
Community Outreach Program				
Salaries and benefits	13,953	14,436	14,279	157
Services and supplies	8,089	7,880	7,850	30
Capital outlay	-	19	-	19
Expenditure reimbursements	<u>(1,099)</u>	<u>(1,001)</u>	<u>(963)</u>	<u>(38)</u>
Total Community Outreach Program	<u>20,943</u>	<u>21,334</u>	<u>21,166</u>	<u>168</u>
Emergency Medical Services				
Salaries and benefits	3,448	3,666	3,411	255
Services and supplies	3,393	3,195	1,936	1,259
Expenditure reimbursements	<u>(93)</u>	<u>(211)</u>	<u>(295)</u>	<u>84</u>
Total Emergency Medical Services	<u>6,748</u>	<u>6,650</u>	<u>5,052</u>	<u>1,598</u>

(Continued)

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
 Budgetary Comparison Schedule
 General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2019
 (In thousands)

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Health and sanitation (continued):				
Healthy Children				
Services and supplies	\$ 3,400	\$ 3,400	\$ 3,295	\$ 105
Total Healthy Children	3,400	3,400	3,295	105
Health and sanitation - subtotals:				
Salaries and benefits	247,299	258,616	238,812	19,804
Services and supplies	517,712	583,646	519,842	63,804
Capital outlay	629	765	308	457
Expenditure reimbursements	(106,025)	(111,200)	(100,861)	(10,339)
Total health and sanitation	659,615	731,827	658,101	73,726
Public assistance:				
In-House Support Services				
Services and supplies	209,308	210,881	208,337	2,544
Total In-House Support Services	209,308	210,881	208,337	2,544
Office of Affordable Housing				
Salaries and benefits	5,681	5,849	4,302	1,547
Services and supplies	72,589	79,188	65,871	13,317
Capital outlay	-	585	367	218
Interfund transfers	-	400	400	-
Expenditure reimbursements	(5,155)	(6,354)	(5,227)	(1,127)
Total Office of Affordable Housing	73,115	79,668	65,713	13,955
Social Services Administration				
Salaries and benefits	378,118	381,000	366,446	14,554
Services and supplies	168,971	187,177	156,102	31,075
Capital outlay	120	263	250	13
Interfund transfers	22,550	26,829	23,918	2,911
Expenditure reimbursements	(576)	(381)	(334)	(47)
Total Social Services Administration	569,183	594,888	546,382	48,506
Categorical Aids Payments				
Services and supplies	177,712	177,670	139,370	38,300
Public assistance - subtotals:				
Salaries and benefits	383,799	386,849	370,748	16,101
Services and supplies	628,580	654,916	569,680	85,236
Capital outlay	120	848	617	231
Interfund transfers	22,550	27,229	24,318	2,911
Expenditure reimbursements	(5,731)	(6,735)	(5,561)	(1,174)
Total public assistance	1,029,318	1,063,107	959,802	103,305

(Continued)

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
 Budgetary Comparison Schedule
 General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2019
 (In thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
Debt service:				
County debt service				
Principal retirement	\$ 32,618	\$ 36,115	\$ 20,990	\$ 15,125
Interest and fiscal charges	24,507	24,507	23,918	589
Interfund transfers	-	-	13,220	(13,220)
Total debt service	<u>57,125</u>	<u>60,622</u>	<u>58,128</u>	<u>2,494</u>
Provisions for Contingencies:				
Appropriation Contingencies				
Services and supplies	<u>(5,650)</u>	<u>(1,182)</u>	-	<u>(1,182)</u>
Reserves:				
OMB Special Programs				
General government	102,400	84,554	-	84,554
Facilities and Fleet				
General government	300	531	-	531
Registrar of Voters				
General government	2,814	2,725	-	2,725
Health Services Administration				
Health and sanitation	352	352	-	352
Social Services Administration				
Public assistance	9,831	9,885	-	9,885
Appropriation Contingencies	150,934	131,789	-	131,789
Total reserves	<u>266,631</u>	<u>229,836</u>	<u>-</u>	<u>229,836</u>
Total charges to appropriations	<u>3,673,285</u>	<u>3,863,308</u>	<u>3,145,820</u>	<u>717,488</u>
Budgetary fund balances, end of year	<u>\$ 407,823</u>	<u>\$ 345,266</u>	<u>\$ 1,019,305</u>	<u>\$ 674,039</u>

(Continued)

COUNTY OF SANTA CLARA

Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule
General Fund - Budgetary Basis

For the Fiscal Year Ended June 30, 2019
(In thousands)

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows of resources

Actual amounts (budgetary basis) "total resources" from the budgetary comparison schedule	\$ 3,349,465
Differences - budget to GAAP:	
Proceeds from sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes	(6,004)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(107,862)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u>\$ 3,235,599</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 3,145,820
Differences - budget to GAAP:	
Encumbrances for services and supplies ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year services are incurred or goods received for financial reporting purposes	(21,199)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(299,567)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - general fund	<u>\$ 2,825,054</u>

The notes to the required supplementary information are an integral part of this statement.

COUNTY OF SANTA CLARA

Notes to Required Supplementary Information
June 30, 2019
(Dollars in thousands)

Budgets and Budgetary Accounting

The County is a charter county and, under the general laws of the State, adopts final annual operating budgets before September 1 for all governmental funds. From the effective date of the budgets, which are adopted by the Board after public hearings, the proposed expenditures become appropriations to the various County departments. Only the Board has the authority to approve new appropriations. The County Executive has a limited authority to approve appropriation transfers of \$100 between the objects within a budget unit. The Board must approve transfers among budget units and may amend the budget during the fiscal year. Unencumbered and unexpended appropriations lapse at fiscal year-end. During the year, the Board approved various supplemental appropriations.

The County also adopts budgets annually for capital projects funds. Such budgets are based on a project time frame, rather than a fiscal year, and unused appropriations are re-appropriated from year to year until project completion.

Budgeted revenues and expenditures in the budgetary comparison schedule represent the original budget and the final budget modified by authorized adjustments during the year. Final budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year that were contingent upon new or additional revenue sources and re-appropriated amounts for prior year encumbrances. Expenditures may not legally exceed budgeted appropriations at the budget unit level within each department. Interdepartmental expenditure reimbursements do not have the budgetary status of legal appropriations. Therefore, variances between estimated and actual reimbursements are not disclosed in the notes to the basic financial statements but are displayed in the supplemental section of the Comprehensive Annual Financial Report.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary accounting in the General Fund, special revenue funds, and capital projects funds.

Budgetary Results of Operations Reconciled to Results of Operations in Accordance with GAAP

The County's budget is based upon accounting for certain transactions on a budget basis rather than accounting principles generally accepted in the United States of America (GAAP) basis. The results of operations on a budget basis for the general, special revenue, debt service, and capital projects funds differ from operations on a GAAP basis due to the proceeds from sales of capital assets, interfund transfers, and the inclusion of year-end encumbrances with expenditures on a budget basis. Accordingly, the results of operations presented in the accompanying budgetary comparison schedule reflect adjustments for proceeds from sales of capital assets, interfund transfers, other financing sources and encumbrances in order to provide a meaningful comparison with the adopted County budget.

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Federal Compliance Section

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**Independent Auditor’s Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Board of Supervisors
County of Santa Clara
San José, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Santa Clara, California (County), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the County’s basic financial statements, and have issued our report thereon dated December 19, 2019, except for our report on the schedule of expenditures of federal awards, Note 17 Subsequent Events, and emphasis of matters paragraph on impacts of COVID-19, as to which the date is July 21, 2020.

Our report includes a reference to other auditors who audited the financial statements of the FIRST 5 Santa Clara County; Santa Clara County Health Authority; the Santa Clara County Vector Control District; and the Santa Clara County Central Fire Protection District, the South Santa Clara County Fire District, and the Los Altos Hills County Fire District (collectively, “Fire Districts”), as described in our report on the County’s basic financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Santa Clara County Tobacco Securitization Corporation, the South Santa Clara County Fire District, the Santa Clara County Central Fire Protection District, and the Santa Clara County Health Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County’s internal control. Accordingly, we do not express an opinion on the effectiveness of the County’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County's Response to Finding

The County's response to the finding identified in our audit is described in the accompanying corrective action plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Walnut Creek, California
December 19, 2019



Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Supervisors
County of Santa Clara
San José, California

Report on Compliance for Each Major Federal Program

We have audited the County of Santa Clara's, California (County) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2019. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The County's basic financial statements include the operations of the Housing Authority of the County of Santa Clara (Housing Authority), which expended \$373,723,461 in federal awards, which is not included in the schedule of expenditures of federal awards, during the year ended June 30, 2019. Our audit, described below, did not include the operations of the Housing Authority because we were engaged to perform an audit in accordance with the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and report on the results separately to the Housing Authority.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Programs

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion on each major federal program is not modified with respect to this matter.

The County's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2019-002 and 2019-003 to be significant deficiencies.

The County's response to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Macias Gini É O'Connell LEA

Walnut Creek, California
July 21, 2020

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COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures	Amount Passed to Subrecipients
U.S. Department of Agriculture				
<u>Passed Through California Department of Social Services</u>				
State Administrative Matching Grants for Supplemental Nutrition Assistance Prog-Admin	10.561	None	\$ 39,625,137	\$ -
State Administrative Matching Grants for Supplemental Nutrition Assistance Prog-CalWIP	10.561	None	1,331,547	-
Subtotal Passed Through State Department of Social Services			40,956,684	-
<u>Passed Through California Department of Public Health</u>				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	15-10075A02	4,224,348	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16-10160	1,715,437	72,018
Subtotal Passed Through California Department of Public Health			5,939,785	72,018
<u>Passed Through California Department of Education</u>				
Child Nutrition Cluster:				
School Breakfast Program	10.553	43-10439-6066435-01	131,467	-
National School Lunch Program	10.555	43-10439-6066435-01	204,620	-
Subtotal of Child Nutrition Cluster			336,087	-
Subtotal Passed Through State Department of Education			336,087	-
Total U.S. Department of Agriculture			47,232,556	72,018
U.S. Department of Housing and Urban Development				
<u>Direct Programs</u>				
Community Development Block Grants / Entitlement Grants	14.218	B-18-UC-06-0007	2,609,927	1,252,917
Home Investment Partnerships Program	14.239	M18-DC060218	316,015	301,576
Continuum of Care	14.267	5022 (FY18-19)	1,353,675	1,353,675
Continuum of Care	14.267	5022 (FY19-20)	767,842	765,546
Continuum of Care	14.267	SAMARITAN (18-19)	212,177	177,177
Continuum of Care	14.267	SAMARITAN (19-20)	111,441	102,981
Continuum of Care	14.267	CCP (18-19)	2,106,936	2,058,636
Continuum of Care	14.267	CCP (19-20)	894,199	879,999
Continuum of Care	14.267	MED RESP (18-19)	360,385	298,022
Continuum of Care	14.267	MED RESP (19-20)	67,027	56,223
Continuum of Care	14.267	FAMILY HS (19)	642,716	590,840
Continuum of Care	14.267	CH-PSH (FY19)	318,366	316,278
Continuum of Care	14.267	RAP2 (19-20)	141,244	137,414
Continuum of Care	14.267	HCM (18-19)	111,453	97,453
Continuum of Care	14.267	HCM (19-20)	351,573	316,073
Continuum of Care	14.267	5320 (18-19)	93,640	91,778
Continuum of Care	14.267	5320 (19-20)	152,367	149,654
Continuum of Care	14.267	SENER (18-19)	125,846	-
Continuum of Care	14.267	SENER (19-20)	272,138	-
Continuum of Care	14.267	SECOND ST (19)	325,640	301,598
Continuum of Care	14.267	FAMILIES (FY18-19)	945,558	941,330
Continuum of Care	14.267	FAMILIES (FY19-20)	221,477	220,165
Continuum of Care	14.267	RRH RE-ENTRY (19)	356,150	346,250
Continuum of Care	14.267	DOMESTIC (18-19)	18,177	17,424
Continuum of Care	14.267	DOMESTIC (19-20)	181,019	174,826
Continuum of Care	14.267	COORD. ENTRY (18-19)	67,416	-
Continuum of Care	14.267	COORD. ENTRY (19-20)	60,567	-
Continuum of Care	14.267	HUD-HMIS (18-19)	475,426	-
Continuum of Care	14.267	HUD-HMIS EXPANSION (18-19)	4,103	-
Continuum of Care	14.267	HUD-HMIS EXPANSION (19-20)	242,067	-
Continuum of Care	14.267	HUD-HMIS EXPANSION CONSOLIDATED (19-20)	245,452	-
Continuum of Care	14.267	HUD PLANNING 16 (18-19)	228,653	-
Continuum of Care	14.267	HUD PLANNING 17 (19-20)	334,657	-
Subtotal Continuum of Care			11,789,387	9,393,342
<u>Passed Through California Department of Housing and Community Development</u>				
Emergency Solutions Grant Program	14.231	17-ESG-11128	108,241	108,241
Total U.S. Department of Housing and Urban Development			14,823,570	11,056,076

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures	Amount Passed to Subrecipients
U.S. Department of Justice				
<u>Direct Programs</u>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	--	\$ 141,267	\$ -
Equitable Sharing Program	16.922	--	118,906	-
DNA Backlog Reduction Program	16.741	2017-DN-BX-0102	92,855	-
Subtotal Direct Programs			<u>353,028</u>	<u>-</u>
<u>Passed Through City of San José</u>				
Missing Children's Assistance	16.543	None	5,139	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0211	11,843	-
Subtotal Passed Through City of San José			<u>16,982</u>	<u>-</u>
<u>Passed Through California Governor's Office of Emergency Services</u>				
Crime Victim Assistance	16.575	KU16010430	22,852	-
Crime Victim Assistance	16.575	UV16020430	42,062	-
Crime Victim Assistance	16.575	UV18030430	134,016	-
Crime Victim Assistance	16.575	VW17360430	351,941	-
Crime Victim Assistance	16.575	VW18370430	958,079	-
Crime Victim Assistance	16.575	XC16010430	569,334	484,633
Crime Victim Assistance	16.575	XV15010430	218,087	-
Crime Victim Assistance	16.575	HA18010430	68,563	-
Subtotal Crime Victim Assistance			<u>2,364,934</u>	<u>-</u>
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ17 13 0430	33,856	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ18 14 0430	37,663	-
Subtotal Paul Coverdell Forensic Sciences Improvement Grant Program			<u>71,519</u>	<u>-</u>
Subtotal Passed Through California Governor's Office of Emergency Services			<u>2,436,453</u>	<u>484,633</u>
Total U.S. Department of Justice			<u>2,806,463</u>	<u>484,633</u>
U.S. Department of Transportation				
<u>Direct Program</u>				
Highway Planning and Construction	20.205	--	470,526	119,355
<u>Passed Through California Department of Transportation</u>				
Highway Planning and Construction	20.205	CML 5937 (191)	253,717	-
Highway Planning and Construction	20.205	CML 5937 (197)	260,555	-
Highway Planning and Construction	20.205	HSIP 5937 (199)	27,882	-
Highway Planning and Construction	20.205	STPL 5937 (218)	113,701	-
Highway Planning and Construction	20.205	BRLO 5937 (182)	16,530	-
Highway Planning and Construction	20.205	BRLS 5937 (124)	31,215	-
Highway Planning and Construction	20.205	BRLO 5937 (106)	20,621	-
Highway Planning and Construction	20.205	BRLS 5937 (123)	5,616	-
Highway Planning and Construction	20.205	BRLO 5937 (176)	2,639,072	-
Highway Planning and Construction	20.205	BRLO 5937 (205)	14,543	-
Highway Planning and Construction	20.205	BRLO 5937 (206)	11,920	-
Highway Planning and Construction	20.205	BRLO 5937 (207)	11,522	-
Highway Planning and Construction	20.205	BRLO 5937 (210)	1,915	-
Highway Planning and Construction	20.205	BRLO 5937 (211)	1,720	-
Highway Planning and Construction	20.205	BRLO 5937 (212)	1,622	-
Highway Planning and Construction	20.205	HRRRL 5937 (190)	11,976	-
Highway Planning and Construction	20.205	HRRRL 5937 (188)	1,678	-
Highway Planning and Construction	20.205	HRRRL 5937 (189)	2,182	-
Highway Planning and Construction	20.205	CML 5937 (196)	5,322,227	-
Highway Planning and Construction	20.205	BPMP 5937 (156)	107,912	-
Highway Planning and Construction	20.205	BPMP 5937 (159)	23,412	-
Highway Planning and Construction	20.205	BHLO 5937 (208)	39,249	-
Highway Planning and Construction	20.205	BHLO 5937 (209)	35,458	-
Highway Planning and Construction	20.205	STPL 5937 (219)	16,598	-
Subtotal Passed Through California Department of Transportation			<u>8,972,843</u>	<u>-</u>
Subtotal Highway Planning and Construction			<u>9,443,369</u>	<u>119,355</u>
Total U.S. Department of Transportation			<u>9,443,369</u>	<u>119,355</u>
U.S. Department of Treasury				
<u>Direct Programs</u>				
Equitable Sharing	21.016	--	87,553	-
Total U.S. Department of Treasury			<u>87,553</u>	<u>-</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures	Amount Passed to Subrecipients
U.S. Department of Health and Human Services				
<u>Direct Programs</u>				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	--	\$ 2,348,966	\$ -
U.S. Repatriation	93.579	--	3,111	-
HIV Emergency Relief Project Grants	93.914	--	3,217,657	1,982,537
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00157-27	379,776	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00157-28	352,924	-
Subtotal Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease			<u>732,700</u>	<u>-</u>
Subtotal Direct Programs			<u>6,302,434</u>	<u>1,982,537</u>
<u>Passed Through California Department of Public Health</u>				
Public Health Emergency Preparedness	93.069	17-10194 (PHEP)	1,045,542	-
Public Health Emergency Preparedness	93.069	17-10194 (CRI)	322,532	-
Public Health Emergency Preparedness	93.069	17-10194 (LAB)	285,951	-
Public Health Emergency Preparedness	93.069	17-10194 (LAB Aspire)	20,933	-
Subtotal Public Health Emergency Preparedness Program			<u>1,674,958</u>	<u>-</u>
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	None	657,427	17,250
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	17-10244	68,661	-
Immunization Cooperative Agreements	93.268	17-10349	1,027,465	-
Refugee and Entrant Assistance_Discretionary Grants	93.576	18-43-90899-00	52,000	-
Medical Assistance Program	93.778	201843	347,714	-
Medical Assistance Program	93.778	201843 MCAH	2,222,043	-
Subtotal Medical Assistance Program			<u>2,569,757</u>	<u>-</u>
National Bioterrorism Hospital Preparedness Program	93.889	14-10542	507,509	83,306
HIV Care Formula Grants	93.917	15-11076	918,401	375,783
HIV Prevention Activities_Health Department Based	93.940	15-10949	426,584	92,613
Sexually Transmitted Diseases (STD) Prevention and Control Grants	93.977	15-10269	6,033	-
Maternal and Child Health Services Block Grant to the States	93.994	201843	213,845	-
Maternal and Child Health Services Block Grant to the States	93.994	201843 MCAH	209,412	-
Subtotal Maternal and Child Health Services Block Grant to the States			<u>423,257</u>	<u>-</u>
Subtotal Passed Through California Department of Public Health			<u>8,332,052</u>	<u>568,952</u>
<u>Passed Through Sourcewise Community Resource Solutions of Santa Clara</u>				
<u>Aging Cluster:</u>				
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	AP-1819-10	1,748,338	-
Nutrition Services Incentive Program	93.053	AP-1819-10	1,013,104	-
Subtotal Aging Cluster			<u>2,761,442</u>	<u>-</u>
<u>Passed Through Public Health Foundation Enterprise Inc.</u>				
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	6NU50CK000410-03-06	9,250	-
<u>Passed Through Superior Court of California</u>				
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	TI0802901	143,908	143,908
<u>Passed Through California Department of Health Care Services</u>				
Projects for Assistance in Transition from Homelessness (PATH)	93.150	None	254,573	-
Children's Health Insurance Program	93.767	CCS Admin	1,421,148	-
<u>Medical Assistance Program:</u>				
Medical Assistance Program	93.778	CCS Admin	4,337,045	-
Medical Assistance Program	93.778	CCS PPC	11,968	-
Medical Assistance Program	93.778	CHDP	752,137	-
Medical Assistance Program	93.778	FOSTER CARE & HCPCFC	962,334	-
Medical Assistance Program	93.778	01-0218	57,709	-
Subtotal Medical Assistance Program			<u>6,121,193</u>	<u>-</u>
Block Grants for Community Mental Health Services	93.958	DHCS1772A	1,417,078	70,622
Block Grants for Prevention and Treatment of Substance Abuse	93.959	None	11,748,379	3,493,374
Subtotal Passed Through California Department of Health Care Services			<u>20,962,371</u>	<u>3,563,996</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COUNTY OF SANTA CLARA
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Federal Grantor/Pass-Through Entity/Grant Name	Federal CFDA No.	Pass-Through Entity Number	Expenditures	Amount Passed to Subrecipients
U.S. Department of Health and Human Services (Continued)				
<u>Passed Through California Department of Child Support Services</u>				
Child Support Enforcement	93.563	None	\$ 22,559,052	\$ -
<u>Passed Through California Department of Social Services</u>				
Guardianship Assistance	93.090	None	945,574	-
Promoting Safe and Stable Families	93.556	None	1,076,075	-
Temporary Assistance for Needy Families	93.558	None	77,940,978 *	-
Refugee and Entrant Assistance - Targeted Assistance Program	93.584	TAFO1707	36,730	-
Refugee and Entrant Assistance_State Administered Programs	93.566	None	23,844	-
Refugee and Entrant Assistance_State Administered Programs	93.566	None	74,629	-
Refugee and Entrant Assistance_State Administered Programs	93.566	None	1,138	-
Refugee and Entrant Assistance_State Administered Programs	93.566	RESS1608	1,163	-
Refugee and Entrant Assistance_State Administered Programs	93.566	RESS1707	28,400	-
Refugee and Entrant Assistance_State Administered Programs	93.566	RESS1809	81,959	-
Refugee and Entrant Assistance_State Administered Programs	93.566	REFS1807	66,959	-
Refugee and Entrant Assistance_State Administered Programs	93.566	ORSA1707	87	-
Refugee and Entrant Assistance_State Administered Programs	93.566	ORSA1807	5,122	-
Subtotal Refugee and Entrant Assistance_State Administered Programs			283,301	-
Community-Based Child Abuse Prevention Grants	93.590	None	58,406	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	None	1,295,558	-
Foster Care_Title IV-E	93.658	None	60,017,254 *	-
Adoption Assistance	93.659	None	16,234,249	-
The Chafee Program	93.674	None	372,734	-
Medical Assistance Program	93.778	None	149,062,915	-
Subtotal Passed Through California Department of Social Services			307,323,774	-
Total U.S. Department of Health and Human Services			368,394,283	6,259,393
U.S. Department of Homeland Security				
<u>Passed Through California Governor's Office of Emergency Services</u>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	SCCOC14	513,558	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	SCCOC15	336,034	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	SCCOC18	630,896	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	SCCOC28	393,533	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	SCCOC34	227,080	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	SCCOC35	653,067	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	SCCOC37	27,432	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	SCCOC39	121,032	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	SCCOC40	298,562	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	SCCOC43	256,165	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	SCCOC81	8,189	-
Subtotal Disaster Grants - Public Assistance (Presidentially Declared Disasters)			3,465,548	-
Emergency Management Performance Grants	97.042	2017-0007	47,647	-
Emergency Management Performance Grants	97.042	2018-0008	519,710	135,307
Subtotal Emergency Management Performance Grants			567,357	135,307
Homeland Security Grant Program	97.067	2016-0102	1,596,008	756,350
Homeland Security Grant Program	97.067	2017-0083	1,107,731	461,568
Homeland Security Grant Program	97.067	2018-0054	210,567	8,179
Subtotal Homeland Security Grant Program			2,914,306	1,226,097
Subtotal Passed Through California Governor's Office of Emergency Services			6,947,211	1,361,404
<u>Passed Through City and County of San Francisco</u>				
Homeland Security Grant Program	97.067	2017-0083	813,368	-
Homeland Security Grant Program	97.067	2018-0054	162,951	6,357
Subtotal Passed Through City and County of San Francisco			976,319	6,357
<u>Passed Through County of San Mateo</u>				
Homeland Security Grant Program	97.067	None	171,413	-
Total U.S. Department of Homeland Security			8,094,943	1,367,761
Total Expenditures of Federal Awards			\$ 450,882,737	\$ 19,359,236

* Temporary Assistance for Needy Families (CFDA No. 93.558) and Foster Care Title IV-E (CFDA No. 93.658) expenditures include transfers of \$2,123,620 and \$3,507,968, respectively, for a total of \$5,631,588 from the Social Services Block Grant (CFDA No. 93.667).

COUNTY OF SANTA CLARA
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Note 1 – General

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activities of the County of Santa Clara, California (County) under programs of the federal government, for the fiscal year ended June 30, 2019, except for the Housing Authority of the County of Santa Clara (Housing Authority) (see Note 4). The County’s reporting entity is defined in Note 1 to the County’s financial statements. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the SEFA presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position and cash flows of the County.

Note 2 – Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting for grants accounted for in the governmental fund types and the accrual basis of accounting for grants accounted for in the proprietary fund types, as described in Note 1 to the County’s basic financial statements. Such expenditures are recognized following the cost principles contained in 2 CFR Section 200, Subpart E (Cost Principles), wherein certain types of expenditures are not allowable or are limited as to reimbursement. The County did not elect to use the 10% de minimis cost rate as covered in 2 CFR Section 200.414 Indirect (F&A) costs.

Note 3 – Relationship to the Financial Statements

Expenditures of federal awards are reported in the County’s basic financial statements as expenditures in the General Fund and nonmajor special revenue funds, and as expenses for noncapital expenditures and as additions to capital assets for capital related expenditures in the enterprise funds. Federal award expenditures agree or can be reconciled with the amounts reported in the County’s basic financial statements.

Note 4 – Housing Authority (Discretely Presented Component Unit) Federal Expenditures

The Housing Authority federal expenditures are excluded from the SEFA because the Housing Authority’s federal expenditures are separately audited. Expenditures for the programs of the Housing Authority listed below are taken from the separately issued single audit report. The programs of the Housing Authority are as follows:

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	Grant/ Contract Number	Expenditures
U.S. Department of Housing and Urban Development			
<i>Direct Programs</i>			
Lower Income Housing Assistance Program			
Section 8 Moderate Rehabilitation	14.856	n/a	\$ 1,367,418
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871	n/a	19,810,706
Mainstream Vouchers	14.879	n/a	1,233,038
Total Housing Voucher Cluster			<u>21,043,744</u>
Family Self Sufficiency	14.896	n/a	342,290
Moving To Work Demonstration Program	14.881	n/a	<u>350,970,009</u>
Total Expenditures of Federal Awards			<u>\$ 373,723,461</u>

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2019

**Note 5 - Schedules of the California Emergency Management Agency and
California Victim Compensation Board**

The following schedule represents expenditures for U.S. Department of Justice grants passed through the California Emergency Management Agency (CalEMA) as well as CalEMA funded grant expenditures for the year ended June 30, 2019. This information is included in the County's single audit report at the request of CalEMA.

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total	CFDA No. of Actual Non-match Amount
Increased Access to Services Program	KU16010430					
Personnel Services	04/01/2017-08/31/2018		\$ 20,260	\$ -	\$ 20,260	
Operating Expenses			2,592	-	2,592	
Total		\$ 104,412	\$ 22,852	\$ -	\$ 22,852	16.575
Underserved Victims Advocacy & Outreach Program	UV16020430					
Personnel Services	04/01/2017-09/30/2018		\$ 40,560	\$ -	\$ 40,560	
Operating Expenses			1,502	-	1,502	
Total		\$ 262,500	\$ 42,062	\$ -	\$ 42,062	16.575
Underserved Victims Advocacy & Outreach Program	UV18030430					
Personnel Services	10/1/2018-09/30/2019		\$ 118,787	\$ -	\$ 118,787	
Operating Expenses			15,229	-	15,229	
Total		\$ 175,000	\$ 134,016	\$ -	\$ 134,016	16.575
Victim Witness Assistance Program	VW17360430					
Personal Services	10/01/2017-09/30/2018		\$ 351,941	\$ -	\$ 351,941	
Total		\$ 1,606,925	\$ 351,941	\$ -	\$ 351,941	16.575
Victim Witness Assistance Program	VW18370430					
Personnel Services	10/01/2018-09/30/2019		\$ 906,722	\$ -	\$ 906,722	
Operating Expenses			51,357	-	51,357	
Total		\$ 1,791,667	\$ 958,079	\$ -	\$ 958,079	16.575
County Victim Services Program	XC16010430					
Personal Services	07/01/2016-12/31/2019		\$ 52,030	\$ -	\$ 52,030	
Operating Expenses			517,304	-	517,304	
Total		\$ 2,582,770	\$ 569,334	\$ -	\$ 569,334	16.575
Underserved Victims Advocacy & Outreach Program	XV15010430					
Personal Services	04/01/2016-12/31/2019		\$ 217,166	\$ -	\$ 217,166	
Operating Expenses			921	-	921	
Total		\$ 656,251	\$ 218,087	\$ -	\$ 218,087	16.575
Human Trafficking Advocacy Program	HA18010430					
Personal Services	01/01/2019-12/31/2019		\$ 66,823	\$ -	\$ 66,823	
Operating Expenses			1,740	-	1,740	
Total		\$ 150,000	\$ 68,563	\$ -	\$ 68,563	16.575

The following schedule represents the California Victim Compensation Board non-Federal grant expenditures for the fiscal year ended June 30, 2019. This information is included in the County's single audit report at the request of the California Victim Compensation Board.

Program Title and Expenditure Category	Grant Award Number/Period	Award Amount	Actual Non-match	Actual Match	Actual Total
California Victim Compensation Board	VC-7083				
Personnel Services	07/01/2017-06/30/2019		\$ 249,151	\$ -	\$ 249,151
Operating Expenses			24,915	-	24,915
Total		\$ 577,172	\$ 274,066	\$ -	\$ 274,066
California Victim Compensation Board	VC-8060				
Personnel Services	07/01/2018-06/30/2021		\$ 1,115,621	\$ -	\$ 1,115,621
Operating Expenses			82	-	82
Total		\$ 3,347,109	\$ 1,115,703	\$ -	\$ 1,115,703

COUNTY OF SANTA CLARA

Notes to the Schedule of Expenditures of Federal Awards (Continued)
For the Fiscal Year Ended June 30, 2019

Note 6 – Program Totals

The following table summarizes programs funded by various sources whose totals are not shown on the SEFA:

Program Title	CFDA Number	Expenditures
<i>State Administrative Matching Grants for the Supplemental Nutrition Assistance Program</i>		
Passed Through California Department of Social Services	10.561	\$ 40,956,684
Passed Through California Department of Public Health	10.561	1,715,437
Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		<u>\$ 42,672,121</u>
<i>Edward Byrne Memorial Justice Assistance Grant Program</i>		
Direct	16.738	\$ 141,267
Passed Through City of San José	16.738	11,843
Total Edward Byrne Memorial Justice Assistance Grant Program		<u>\$ 153,110</u>
<i>Medical Assistance Program</i>		
Passed Through California Department of Public Health	93.778	\$ 2,569,757
Passed Through California Department of Health Care Services	93.778	6,121,193
Passed Through California Department of Social Services	93.778	149,062,915
Total Medical Assistance Program		<u>\$ 157,753,865</u>
<i>Homeland Security Grant Program</i>		
Passed Through the California Governor's Office of Emergency Services	97.067	\$ 2,914,306
Passed Through City and County of San Francisco	97.067	976,319
Passed Through County of San Mateo	97.067	171,413
Total Homeland Security Grant Program		<u>\$ 4,062,038</u>

Note 7 – Program Expenditures

During the year ended June 30, 2019, the County reported expenditures of \$3,465,548 for Disaster Grants – Public Assistance (Presidential Declared Disasters) (CFDA No. 97.036), of which \$3,394,508 and \$71,040, respectively, were incurred during the years ended June 30, 2018 and 2019. The County should report expenditures incurred as of the year-end in which the County received approval from the Federal Emergency Management Agency (FEMA) or pass-through agencies. The County received approval from FEMA during the year ended June 30, 2018 and should report the 2018 expenditures of \$3,394,508 in 2018. The County subsequently received approval from Federal Emergency Management Agency to report the 2018 expenditures in 2019. The 2018 and 2019 expenditures are considered together for 2019 major program determination and are subjected to the same audit procedures.

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COUNTY OF SANTA CLARA
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2019

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	Yes
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings required to be reported in accordance with 2 CFR 200.516(a)?	Yes

Identification of major programs:

CFDA No. 10.561	State Administrative Matching Grants for Supplemental Nutrition Assistance
CFDA No. 14.218	Community Development Block Grants / Entitlement Grants
CFDA No. 93.563	Child Support Enforcement
CFDA No. 93.658	Foster Care Title IV-E
CFDA No. 93.778	Medical Assistance Program
CFDA No. 93.914	HIV Emergency Relief Project Grants
CFDA No. 97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
CFDA No. 97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	No

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2019

Section II – Financial Statement Findings

Finding 2019-001

**Schedule of Expenditures of Federal Awards Accuracy
Significant Deficiency in Internal Control Over Financial Reporting**

Pursuant to 2 CFR 200.508, the County, as an auditee, must prepare appropriate financial statements, including the schedule of expenditures of federal awards (SEFA) in accordance with 2 CFR 200.510 Financial Statements. The SEFA must be prepared for the period covered by the auditee's financial statements which must include the total federal awards expended as determined in accordance with 2 CFR 200.502 Basis for determining federal awards expended.

Furthermore, the auditee must establish and maintain internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal awards. These internal controls should be in compliance with guidance in "Standards for Internal Control in Federal Government" issued by the Comptroller General of the United States and the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

For the preparation of the Countywide SEFA, the County's current practice is to require the County's departments that incurred federal award expenditures to provide the related information to the County's Controller-Treasurer's Department, which consolidates the information and compiles the Countywide SEFA.

During our audit, we noted errors in the accuracy of the expenditures for three federal programs which are corrected by the County:

- 1) For the Community Development Block Grants / Entitlement Grants (CFDA No. 14.218), the expenditures were overstated by \$46,482.
- 2) For the Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036), the expenditures were understated by \$231,618. In addition, the County should report expenditures incurred as of the year-end in which the County received award approval from the Federal Emergency Management Agency (FEMA) or pass-through agencies. The County received award approval from FEMA during the year ended June 30, 2018 and should report the 2018 expenditures of \$3,394,508 in 2018. The County subsequently received approval from FEMA to report the 2018 expenditures in 2019.
- 3) For the Homeland Security Grant Program (CFDA No. 97.067), the expenditures were understated by \$478,498 mainly due to late submission of reimbursement requests by the County's subrecipients.

The errors were due to staff turnover and the lack of understanding of the basis of accounting for SEFA expenditures.

Errors in SEFA reporting may result in an inadequate risk assessment and incomplete or incorrect identification of major programs. In addition, it may cause audit inefficiencies and delays the completion of the County's single audit.

We recommend that the County provide training to the County departments receiving federal assistance in order to understand the differences and internal expectations between SEFA expenditure reporting and County Financial Statements expenditure reporting method.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2019

Section III – Federal Award Findings and Questioned Costs

Finding 2019-002

Reporting

Awarding Agency:	United States Department of Housing and Urban Development
Program Name:	Community Development Block Grants / Entitlement Grants
CFDA Number:	14.218
Award Year:	July 1, 2018 through June 30, 2019
Classification of Finding:	Instance of Noncompliance Significant Deficiency in Internal Control over Compliance

Criteria

In accordance with 2 CFR Section 200.302 (b), the financial management system of each non-federal entity must provide for accurate, current, and complete disclosure of the financial results of each federal award or program in accordance with the reporting requirements set forth in Section 200.327 Financial reporting and Section 200.328 Monitoring and reporting program performance.

Furthermore, the non-federal entity must establish and maintain internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal awards. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition/Context

As a recipient of Community Development Block Grants / Entitlement Grants (CDBG) funding, the County is required to submit 1) SF-425 Federal Financial Report on a quarterly basis within 30 days after quarter ended, and 2) HUD Section 3 Summary Report, Economic Opportunities for low- and Very Low-Income Persons, on an annual basis within 90 days after year ended. During our testing of reporting requirements, we selected the SF-425 Federal Financial Reports for the quarters ended December 31, 2018 and June 30, 2019, and the HUD Section 3 Summary Report for the year ended June 30, 2019 for testing. These 3 reports were submitted between 35 to 163 days after the deadlines.

Questioned Costs

The late submission of the SF-425 Federal Financial Reports and the HUD Section 3 Summary Report did not result in any questioned costs.

Cause

Existing internal controls did not prevent, or detect and correct, the occurrence of late submission of required reports in a timely manner.

Effect

The County did not comply with the CDBG program’s reporting requirements for timely submission of required reports.

Identification of Repeat Finding

This is a repeat of a finding in the immediate prior audit.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2019

Section III – Federal Award Findings and Questioned Costs (Continued)

Recommendation

We recommend that the County reviews its existing policies and implement procedures to ensure that all required reports are submitted to the federal agency on a timely basis.

Views of Responsible Officials and Corrective Action Plan

Management’s response is reported in the “Corrective Action Plan” included in a separate section at the end of this report.

Finding 2019-003

Eligibility

Awarding Agency:	United States Department of Health and Human Services
Passed Through:	California Department of Public Health California Department of Health Care Services California Department of Social Services
Program Name:	Medical Assistance Program
CFDA Number:	93.778
Award Year:	July 1, 2018 through June 30, 2019
Classification of Finding:	Significant Deficiency in Internal Control over Compliance

Criteria

In accordance to 42 CFR Section 431.10, the State Medicaid agency or its designee is required to determine client eligibility with eligibility requirements defined in the approved State plan.

Furthermore, the non-federal entity must establish and maintain internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal awards. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition/Context

During our review of the eligibility requirements for the In-Home Supportive Services program (Program) under the Medical Assistance Program (CFDA No. 93.778), we selected and tested a statistically valid sample of 40 participants from a population of 25,524 participants who received in-home supportive services during the fiscal year ended June 30, 2019. The Program is administered by the County’s Social Services Agency (Agency). Each eligibility assessment is generally effective for a period of 12 months and the Agency should perform an eligibility reassessment before the end of the prior assessed period. For five of the participants tested, eligibility reassessments were performed between 5 to 26 months after the end of the prior assessed periods.

Questioned Costs

None – The selected participants are determined to be eligible to the Program.

COUNTY OF SANTA CLARA
Schedule of Findings and Questioned Costs (Continued)
For the Fiscal Year Ended June 30, 2019

Section III – Federal Award Findings and Questioned Costs (Continued)

Cause

In fiscal year 2019, the Program had 74 case management social workers to serve the population of 25,524 cases. Each social worker carried an annual caseload of 345 cases. Due to the limited time and resources, the Program did not perform the reassessments before the end of the prior assessed period.

Effect

The Agency may not be able to detect potential noncompliance with the eligibility requirements on a timely basis.

Identification of Repeat Finding

This is not a repeat of a finding in the immediate prior audit.

Recommendation

We recommend that the Agency review its existing policies and implement procedures to ensure that eligibility reassessments are performed on a timely basis.

Views of Responsible Officials and Corrective Action Plan

Management's response is reported in the "Corrective Action Plan" included in a separate section at the end of this report.

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In relation to the County of Santa Clara (County) annual financial statement audit and the single audit for the year ended June 30, 2019, the County hereby submits a summary schedule of prior audit findings and a corrective action plan, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Section 511 *Audit findings follow-up*.

Schedule of Prior Audit Findings

Reference Number:	Federal Award Finding 2018-001 <i>Special Tests & Provisions – Child Support Non-Cooperation</i>
Program Identification:	United States Department of Health and Human Services Passed Through State of California Department of Social Services CFDA No. 93.558 – Temporary Assistance for Needy Families
Audit Finding:	During our testing of 9 participant files out of a population of 49 individuals who did not cooperate with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual for the fiscal year, we noted that Notice of Action form for 1 participant file was not maintained in the client records. A 25% penalty was properly applied to benefit payment for non-cooperation with the local child support agency, but there was no indication that the reduction in benefit payment was communicated to the participant at least 10 days prior to the sanction.
Recommendation:	We recommend that the County continue to evaluate the effectiveness of its current internal control policies over proper record keeping of all required correspondence, including Notice of Action forms, to benefit recipients. In addition, we recommend the County continue to strengthen its internal control procedures over the benefit sanction process to ensure that sanctions are properly and timely communicated to beneficiaries and only imposed when valid.
Status:	Corrective action plan has been implemented. The Social Services Agency continues to strengthen its internal control policies and procedures to comply with the requirements.

Reference Number: **Federal Award Finding 2018-002**
Eligibility

Program Identification: United States Department of Health and Human Services
Passed Through State of California Department of Social Services
CFDA No. 93.558 – Temporary Assistance for Needy Families

Audit Finding: During our review of the eligibility requirements, we selected and tested a statistically valid sample of 40 participants from a population of 15,654 participants who received TANF assistance during the fiscal year ended June 30, 2018. For one of the participants tested, the participant received TANF assistance for 61 cumulative months as of June 30, 2018, which is in excess of the 60 cumulative months eligibility period.

Recommendation: We recommend that the County review its existing policies and implement procedures to ensure that proper reviews over participants' eligibility are performed and no benefit payments are made to ineligible participants.

Status: Corrective action plan has been implemented. The Social Services Agency continues to strengthen its internal control policies and procedures to comply with the requirements.

Reference Number: **Federal Award Finding 2018-003**
Reporting

Program Identification: United States Department of Housing and Urban Development
CFDA No. 14.218 – Community Development Block Grants / Entitlement Grants

Audit Finding: As a recipient of Community Development Block Grants / Entitlement Grants (CDBG) funding, the County is required to submit 1) SF-425 Federal Financial Report on a quarterly basis and 2) HUD 60002 Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, on an annual basis. The Office of Supportive Housing (Office) is responsible to administer the CDBG program. The Office was not able to locate or provide any documentation to support the submission of any of the four required quarterly SF-425 Federal Financial Reports for the year ended June 30, 2018. The Office also submitted the HCD 60002 Section 3 Summary Report for the year ended June 30, 2018 two months after the submission deadline.

Recommendation: We recommend that the County review its existing policies and implement procedures to ensure that all required reports are submitted to the federal agency on a timely basis. Evidence of submission and supporting documentation should be maintained in accordance for the required retention period.

Status: In progress. Refer to current year finding 2019-002.

Reference Number: **Federal Award Finding 2017-004**
Eligibility

Program Identification: United States Department of Health and Human Services
Passed Through California Department of Public Health, California
Department of Health Care Services, and California Department of
Social Services
CFDA No. 93.778 – Medical Assistance Program

Audit Finding: During our review of the eligibility requirements for the In-Home Supportive Services program (Program) under Medical Assistance Program (CFDA No. 93.778), we selected and tested a statistically valid sample of 40 participants from a population of 23,816 participants who received in home supportive services during the fiscal year ended June 30, 2017. The Program is administered by the County’s Social Services Agency (Agency). For six of the participants tested, no internal review on the eligibility reassessment was performed by the Agency.

Eecommendation: We recommend that the Agency review its existing policies and implement procedures to ensure that the proper reviews over annual eligibility reassessments are performed.

Status: In progress. Refer to current year finding 2019-003.



Corrective Action Plan

The following findings were reported to the County's Schedule of Findings and Questioned Costs for the Year Ended June 30, 2019. The County's Corrective Action Plan for the findings is as follows:

Comment #2019-001 – (Significant Deficiency in Internal Control over Financial Reporting) – Schedule of Expenditures of Federal Awards Accuracy

The Controller-Treasurer Department will provide training to other County departments to ensure proper understanding of the SEFA reporting requirements, accuracy in reporting program expenditures, and the importance of internal controls on the recording and reporting of financial transactions on SEFA. County departments will ensure that the SEFA preparers understand the requirements and instructions of SEFA reporting and perform a review before submission to ensure the SEFA is properly prepared in accordance with the reporting requirements. Program staff will work closely with subrecipients for submitting reimbursement claims in the timely manner. Furthermore, County departments will proactively communicate to the Controller-Treasurer Department to verify that all program expenditures are reported on SEFA in the proper fiscal year.

These changes will be implemented on October 31, 2020.

Contact Person: Mariles Alvarez
Senior Accountant, Controller-Treasurer Department
Trish Phan
Accounting Manager, Controller-Treasurer Department

Comment #2019-002 – (Instance of Noncompliance and Significant Deficiency in Internal Control over Compliance) – Reporting – Community Development Block Grants / Entitlement Grants (CFDA #14.218)

The County concurs with the finding and recommendation. Office of Supportive Housing Staff will review and update existing policies and procedures to ensure continued compliance with HUD's annual and quarterly reporting requirements. In addition, Office of Supportive Housing Staff will track the date of submission and supporting documentation will be maintained in accordance with the required record retention policies of the County and HUD.

These changes will be implemented by July 31, 2020.

Contact Person: Consuelo Hernandez
Deputy Director, Office of Supportive Housing

Comment #2019-003 – (Significant Deficiency in Internal Control over Compliance) – Eligibility – Medical Assistance Program (CFDA #93.778)

Management concurs that in those cases subject to face-to-face reassessment within 12 months, the IHSS program did not complete reassessment home visits within 12 months for 100% of cases. The current reassessment rate is 78.1%. Due to limited resources, the IHSS staff has been unable to reach its goal of 100% compliance.

In FY18/19, the program had 74 case management social workers to serve the population of 25,524 cases. Each social worker carried an annual caseload of 345 cases, adjusting for illness, vacations, etc. The social work staff has been diligently working to raise the reassessment rate (improving from a low of 55%). However, 5% to 6% annual program growth means the challenge remains steep and growing.

IHSS management has sought budget augmentation for additional social work staff to address the compliance rate and the program has received approval to hire 19 social workers and 2 social work supervisors. In addition, detailed process reviews (continuous process improvement) are underway to target any potential efficiency improvements. In all the circumstances, management considers an improvement to 90% reassessment compliance to be a realistic goal in 2 years.

These changes will be implemented on July 31, 2020.

Contact Person: Terri Possley
Social Services Program Manager III, In-Home Supportive Services, Social Services Agency
Kingston Lum
Social Services Program Manager I, In-Home Supportive Services, Social Services Agency

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