2019 Financial Soundness Rankings for California's 58 Counties

Edition: March 30, 2020

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Executive Summary

The Coronavirus Crisis

The unprecedented crisis caused by the coronavirus suggests the need for urgent and focused action by all governmental bodies to get their fiscal houses in order. Although we will not have preliminary numbers for a couple of weeks, tax receipts will likely be down in every area of revenue collection.

I will be reflecting such changes in future reports on fiscal soundness for all 50 states and California counties, cities, school districts and colleges. I issue these reports periodically to aid policymakers, opinion leaders and citizens in assessing government budgets. As this crisis continues, past reports will be a baseline for future decisions. For example, a sound financial report will indicate less drastic actions will be needed than for a report showing severe budget problems even before the crisis hit.

This 2019 Report covers California county finances through the fiscal year ending June 30, 2018. So this is a snapshot of "normal" times even though fiscal situations for the counties already looked troubling. The next report will be for the fiscal year ending June 30, 2019, which will still reflect a "normal" period.

Then the report for the fiscal year ending June 30, 2020, the period we now are in, will cover the beginning of the coronavirus crisis and give us a chance to see how devastating pandemics and economic downturns can be to ill-prepared state and municipal governments.

Which means the last four months of the fiscal year March to June 2020 will be reflected in that report, and will be negative to a degree no one now can predict. God willing, the recovery will begin by the time the next fiscal year starts on July 1, 2020. But that will mean the budgets for that period will have to account for the immense additional cost of keeping government operations working, paying unemployment benefits and jump-starting business operations.

This demonstrates with an exclamation point why personal, business and government finances must be prudent in normal times to prepare for times of crisis.

Certainly it would have been better to get these unrestricted net deficits under control in the past, but that did not happen. Now it is imperative that public officials at all levels of government take measures that, at a minimum, include pension and retiree medical reform. If such reforms are not in place, the pension and retiree medical liabilities will devour more and more of government budgets, forcing layoffs of public safety officials and the closure of other critical governmental services when they are needed most.

Will we see the numbers of police and firefighters, of public health workers and other essential personnel, cut dramatically because union officials refuse to agree to essential reforms? We will soon find out.

GASB and Retiree Medical Liabilities

As financial transparency mandated by the Governmental Accounting Standards Board (GASB) increases, many of California's 58 counties continue to reveal deteriorating financial positions. That follows the pattern seen in my report on the 482 California cities, which I released in January 2020.

New promulgations by GASB require municipal audited financial statements to include retiree medical liabilities. Balance sheets refer to this as Other Post-Employment Benefits (OPEB). With their addition, more counties are seeing their unrestricted net positions (UNP) tip further into the red on their balance sheets, as presented in a Comprehensive Annual Financial Report (CAFR).

Counties are supposed to provide their financial statements within a reasonable time after the ending of each fiscal year. Several reports have already come in for the June 30, 2019 fiscal year. But for consistency, this report includes the financial statements for June 30, 2018, excepting only tiny Modoc County, for which the latest is 2017 due to persistent fiscal challenges.

Total Deficits for Local Governments

Continuing from last year, the same two counties – San Mateo and Alameda – were the only ones to stay in the black financially with positive per-capita UNPs. San Mateo decreased slightly from $1,341 per capita in 2017 to a still robust $1,242 in 2018. And Alameda improved a bit, from $70 in 2017 to $99 in 2018.

Two counties out of 58 means just 3 percent were in the black, 97 percent in the red. By contrast, for cities, 43 percent were positive and 57 percent negative.

The total combined negative UNPs for the 58 counties continued to get worse, going from $41.5 billion in 2017 to $55.1 billion in 2018. That is an increase of $13.6 billion in just one year, or 33 percent. That's what finally reporting OPEBs can do.

By comparison, the 482 cities went from $22.7 billion in the red in 2017 to $31.5 billion in 2018. That was an increase in the combined net deficit of $8.8 billion, or 39 percent.

Combining the counties and cities, these municipalities went from a combined net deficit of $64.2 billion to $86.6 billion. That's collectively $22.4 billion deeper in debt, or 35 percent.

These numbers are similar to the 40 percent increase in one year in unfunded liabilities for the state's 944 school districts, as detailed in the December 11, 2019 School Districts Report. Although for the schools, the total negative number was worse, at a stunning combined deficit of $70.9 billion.

Add all the local net deficits for 2018:

482 cities:	$31.5 billion
58 counties:	$55.1 billion
944 school districts:	$70.9 billion
Total CA Local Unfunded Liabilities:	**$157.5 billion**

What's interesting is that all three local government types increased their unfunded liabilities by similar ratios: 33 percent (counties), 39 percent (cities) and 40 percent (school districts). So, excepting the entities with positive balance sheets, there is a similar level of pain for finally accounting for OPEBs at the local levels of government all across California.

Some would contest that the comparisons are apples to oranges because OPEBs were not reported as they are now. I contend that this report shows the true fiscal realities now that retiree medical obligations are being exposed to the public in broad daylight.

Total California Unfunded Liabilities

For this report, I'm including a new section on total state unfunded liabilities only for the entities I have reviewed in previous and upcoming reports. I use only the numbers publicly provided, with no alternative factors or extrapolations on discount rates or other factors that could alter these numbers. By using their data, there should be little room for assertions that I'm playing with the numbers. If there is a misrepresentation or error, I will quickly correct it. However, this series of reports suggests local elected officials need to work on their fiscal houses, rather than make excuses for their respective houses' poor fiscal condition.

State of California	$213.2 billion
University of California	$20.4 billion
Cal State University	$18.2 billion
72 Community Colleges	$8.1 billion
482 cities:	$31.5 billion
58 counties:	$55.1 billion
944 school districts:	$70.9 billion
Total CA Unfunded Liabilities:	**$417.4 billion**

Average amount per capita liability for each of 40 million Californians: $10,425.

Average amount per capita liability for a family of four: $41,740.

It should also be noted that these numbers exclude thousands of special districts, joint governmental operations and other quasi-government entities which could impact the taxpayers' obligation. Even so, these numbers are sobering.

Looking toward 2020 CAFRs

Up for next year's CAFRs: As of December 15, 2019, GASB requires governments to report leases as liabilities with reciprocal intangible assets, with GASB authorized time extensions. According to GASB, these assets "include easements, computer software, water rights, timber rights, patents, and trademarks." Expect to see unrestricted net deficits increase even further in the next two to three years.

It will take a couple of years for governments to sort this out, so draw conclusions with caution because the data are in flux. Nonetheless, the data here and in the individual financial reports already provide valuable information for questions to county financial officials and supervisors.

Orange County

The UNP of Orange County, which I have served as treasurer, supervisor and state senator for 25 years, worsened to ($1,028) from ($963) in 2017, or down 6.7 percent in one year. Yet on the overall list of 58 counties, it clocked at No. 25 on the 2018 list, slightly better than last year's No. 28 rank. And the O.C. ranking is way up from the No. 46 ranking of 2010.

This is probably due to successful negotiations I enjoyed as a Supervisor-Elect in 2006 to address retiree medical liabilities. The unfunded actuarial assumed liabilities were reduced by $1 billion, and the byproduct of that compromise continues to pay dividends more than a decade later.

What Is a CAFR?

All government entities in California must publish and send to the state their audited financial statements so public officials, private watchdog groups, journalists and private citizens can review them. The most common name for these statements is an Annual Financial Report.

Counties – as well as the state and most cities and school districts – send the state a Comprehensive Annual Financial Report (CAFR). The Governmental Accounting Standards Board, which establishes requirements for these reports, explained, "A CAFR is more robust. Cities and counties will prepare CAFRs because they are in the bond markets more than school districts are. Unless there is a CAFR, they'll get dinged a little bit on the interest rate."

According to "An Analyst's Guide to Government Financial Statements 3rd Edition," from April 2018, by GASB's Dean Michael Mead, "Some governments, especially larger ones, include their financial statements in a Comprehensive Annual Financial Report, which contains additional statements and schedules that contain relevant financial, economic, and demographic information, often for multiple years. The CAFR has three sections," introductory, financial and statistical.

Audited financial statements include the number I use most often in this report, the Unrestricted Net Position. GASB said the UNP numbers are "just as solid" on an Annual Financial Report as on a CAFR.

How to Analyze a Financial Statement

A simple measurement ratio or metric is to divide the UNP by the municipality's population.

The process:

1. First, find the "Statement of Net Position" in the "Basic Financial Statements" for each financial statement.
2. Then find "Governmental Activities" in the top row.
3. Look down the column to "Net Position," then "Unrestricted."
4. "Unrestricted" is the number wanted: The Unrestricted Net Position, or UNP, for governmental activities.
    a. It either will be a positive number, or, if there are brackets around it, a negative number. (Note: if it says at the top "in thousands"; then add three more zeroes to the number.)
    b. This number is the key because it is about purely governmental activities. For example, it does not include concessions from "business-type activities," such as charging fees to external users running a service.
5. Next, divide the UNP by the county's population, giving the UNP per capita.
    a. This is the amount affecting individual residents.
    b. If it is a positive number, especially a high one, that is good.
    c. If it is a negative number, there may be problems.

Tardy Modoc

Please note that Modoc County's most recent CAFR comes from 2017, one year prior to the 2018 CAFRs used here for every other county. In my 2018 report, Modoc was listed as second overall only because the latest CAFR available at the time was from 2014. For consistency with my previous reports, I'm continuing to use the 2014 number in the data below, as indicated. So, for Modoc, the first number is for 2017 and the second, for 2014.

Modoc has engaged with a new audit firm and recently published CAFRs for 2015, 2016 and 2017. Modoc's population of just under 9,000 may explain why it's tardy with its CAFR. The county told me it will be working with a new firm for its 2018, 2019 and 2020 reports. So let's hope it catches up soon. Accurate, up-to-date financial reporting is essential for all governments, even the smallest.

County Analyses

Ten Best (or Least Bad) Counties Per Capita

County	Population	UNP/cap	UNP
San Mateo	774,155	$1,252	$969,478,000
Alameda	1,660,202	$99	$163,925,000
San Benito	57,088	($51)	($2,901,358)
Ventura	859,073	($195)	($167,704,000)
Napa	141,294	($321)	($45,421,748)
San Diego	3,337,456	($375)	($1,250,068,000)
Tulare	475,834	($406)	($193,115,000)
Monterey	443,281	($406)	($180,147,335)
San Bernardino	2,174,938	($408)	($887,566,000)
Stanislaus	555,624	($555)	($308,359,785)

Ten Worst Counties Per Capita

County	Population	UNP/cap	UNP
Alpine	1,154	($10,120)	($11,678,443)
Trinity	13,635	($6,792)	($92,606,153)
Sierra	3,207	($6,466)	($20,736,868)
Del Norte	27,221	($4,681)	($127,409,084)
Mariposa	18,129	($4,418)	($80,099,278)
Inyo	18,577	($3,842)	($71,371,486)
Glenn	28,796	($3,564)	($102,630,299)
San Francisco	883,963	($3,338)	($2,950,722,000)
Mono	13,822	($2,954)	($40,825,597)
Los Angeles	10,283,729	($2,835)	($29,158,786,000)

Counties Getting Better

County	2018 UNP	2017 UNP	Change 2017 to 18
Contra Costa	($939,047,000)	($1,245,474,000)	$306,427,000
Fresno	($735,368,000)	($939,690,000)	$204,322,000
San Bernardino	($887,566,000)	($1,004,921,000)	$117,355,000
Alameda	$163,925,000	$115,106,000	$48,819,000
Yolo	($206,494,891)	($250,552,000)	$44,057,109
Ventura	($167,704,000)	($198,202,000)	$30,498,000
Kern	($1,689,857,000)	($1,713,301,000)	$23,444,000
Merced	($285,353,575)	($305,869,526)	$20,515,951
San Luis Obispo	($217,606,000)	($226,970,000)	$9,364,000

Counties Getting Worse

County	2018	2017	Change 2017 to 18
Los Angeles	($29,158,786,000)	($18,728,499,000)	($10,430,287,000)
Santa Clara	($2,277,610,000)	($1,586,614,000)	($690,996,000)
Imperial	($378,258,000)	$26,949,000	($405,207,000)
San Francisco	($2,950,722,000)	($2,560,735,000)	($389,987,000)
Riverside	($1,947,282,000)	($1,689,770,000)	($257,512,000)
Orange	($3,312,306,000)	($3,074,958,000)	($237,348,000)
Sonoma	($649,958,000)	($457,536,000)	($192,422,000)
Sacramento	($2,531,677,000)	($2,351,925,000)	($179,752,000)
Placer	($383,463,000)	($212,323,000)	($171,140,000)

The Pension Crisis

On January 10, Gov. Gavin Newsom released his budget proposal for fiscal year 2020-21, which begins on July 1. It assumed a $7 billion surplus. It noted “the 2019 Budget Act included a $3 billion supplemental pension payment authorized to be paid towards the unfunded liabilities of the CalPERS state retirement plans over fiscal years 2018-19 through 2022-23." His budget proposed to accelerate the payment of the remaining $500 million currently scheduled over fiscal years 2020-21 through 2022-23 into a single payment in 2019-20."

That was before the coronavirus crisis hit. The projected revenue increases for the next few years have vanished. The governor's May Revision of his budget will give us an estimate of the magnitude of the fiscal calamity. So it's unlikely any additional payments will be made to state and local pension funds.

Conclusion: As mentioned at the beginning of this report, it's even more imperative that union officials drop their objections to pension and retiree medical reforms. There is no going back to February 2020.

Note: As detailed above, for Modoc, the "Fiscal 2018" number used the data from 2017, the latest currently available. And the "Fiscal 2017" Modoc number used the data from 2014, to be consistent with my previous report.

California's 58 Counties

Rank	County	Population	Fiscal 2018 UNP	UNP Per Capita	Fiscal 2017 UNP	Fiscal 2017 UNP/Cap	Fiscal 2017 Rank	Rank Chg
1	San Mateo	774,155	$969,478,000	$1,252	$1,032,917,000	$1,341	1	0
2	Alameda	1,660,202	$163,925,000	$99	$115,106,000	$70	3	1
3	San Benito	57,088	($2,901,358)	($51)	($4,444,297)	($78)	4	1
4	Ventura	859,073	($167,704,000)	($195)	($198,202,000)	($231)	6	2
5	Napa	141,294	($45,421,748)	($321)	($20,269,000)	($142)	5	0
6	San Diego	3,337,456	($1,250,068,000)	($375)	($1,151,817,000)	($347)	9	3
7	Tulare	475,834	($193,115,000)	($406)	($151,683,000)	($321)	8	1
8	Monterey	443,281	($180,147,335)	($406)	($157,800,000)	($357)	10	2
9	San Bernardino	2,174,938	($887,566,000)	($408)	($1,004,921,000)	($465)	13	4
10	Stanislaus	555,624	($308,359,785)	($555)	($250,775,999)	($458)	12	2
11	Lake	65,081	($43,801,385)	($673)	($34,337,436)	($529)	14	3
12	Solano	439,793	($316,265,304)	($719)	($287,817,986)	($660)	17	5
13	Fresno	1,007,229	($735,368,000)	($730)	($939,690,000)	($943)	27	14
14	Kings	151,662	($115,419,194)	($761)	($79,544,253)	($532)	15	1

15	San Luis Obispo	280,101	($217,606,000)	($777)	($226,970,000)	($810)	22	7
16	Riverside	2,415,955	($1,947,282,000)	($806)	($1,689,770,000)	($709)	20	4
17	Amador	38,094	($30,960,943)	($813)	($28,746,924)	($749)	18	1
18	Contra Costa	1,149,363	($939,047,000)	($817)	($1,245,474,000)	($1,093)	33	15
19	Calaveras	45,157	($38,290,054)	($848)	($37,912,384)	($839)	24	5
20	Tehama	64,039	($55,231,805)	($862)	($46,360,517)	($724)	21	1
21	Marin	263,886	($244,489,974)	($926)	($101,488,000)	($385)	11	-10
22	Yolo	221,270	($206,494,891)	($933)	($250,552,000)	($1,145)	35	13
23	Placer	389,532	($383,463,000)	($984)	($212,323,000)	($555)	16	-7
24	Merced	279,977	($285,353,575)	($1,019)	($305,869,526)	($1,114)	34	10
25	Orange	3,221,103	($3,312,306,000)	($1,028)	($3,074,958,000)	($963)	28	3
26	Lassen	30,911	($32,044,808)	($1,037)	($21,243,147)	($687)	19	-7
27	San Joaquin	758,744	($811,650,698)	($1,070)	($780,575,000)	($1,045)	30	3
28	Santa Clara	1,956,598	($2,277,610,000)	($1,164)	($1,586,614,000)	($819)	23	-5
29	Sutter	97,238	($115,810,680)	($1,191)	($117,888,830)	($1,216)	31	2
30	Butte	227,621	($279,061,376)	($1,226)	($226,249,000)	($999)	29	-1
31	Santa Barbara	453,457	($562,947,000)	($1,241)	($532,968,000)	($1,183)	36	5
32	Sonoma	503,332	($649,958,000)	($1,291)	($457,536,000)	($906)	25	-7
33	Nevada	99,155	($130,832,826)	($1,319)	($106,803,720)	($1,081)	32	-1
34	Modoc (see note above)	9,612	($12,688,370)	($1,320)	$8,040,152	$839	2	-32
35	Shasta	178,271	($250,319,261)	($1,404)	($167,268,000)	($937)	26	-9
36	El Dorado	188,399	($276,994,712)	($1,470)	($225,513,596)	($1,219)	37	1
37	Santa Cruz	276,864	($425,382,137)	($1,536)	($363,117,518)	($1,313)	38	1
38	Humboldt	136,002	($221,987,842)	($1,632)	($200,656,339)	($1,465)	41	3
39	Sacramento	1,529,501	($2,531,677,000)	($1,655)	($2,351,925,000)	($1,553)	42	3
40	Plumas	19,773	($34,330,857)	($1,736)	($31,353,531)	($1,582)	39	-1
41	Kern	905,801	($1,689,857,000)	($1,866)	($1,713,301,000)	($1,914)	50	9
42	Madera	158,894	($314,570,478)	($1,980)	($221,281,000)	($1,414)	40	-2
43	Mendocino	89,299	($177,033,033)	($1,982)	($163,486,575)	($1,834)	49	6
44	Imperial	190,624	($378,258,000)	($1,984)	$26,949,000	$143	7	-37
45	Tuolumne	54,740	($121,719,478)	($2,224)	($100,120,000)	($1,830)	48	3
46	Yuba	74,727	($173,947,680)	($2,328)	($153,077,504)	($2,053)	52	6
47	Colusa	22,098	($56,012,370)	($2,535)	($34,403,557)	($1,561)	45	-2
48	Siskiyou	44,612	($113,592,214)	($2,546)	($82,058,669)	($1,836)	54	6

49	Los Angeles	10,283,729	($29,158,786,000)	($2,835)	($18,728,499,000)	($1,829)	47	-2
50	Mono	13,822	($40,825,597)	($2,954)	($19,765,256)	($1,441)	51	1
51	San Francisco	883,963	($2,950,722,000)	($3,338)	($2,560,735,000)	($2,929)	56	5
52	Glenn	28,796	($102,630,299)	($3,564)	($65,896,660)	($2,294)	55	3
53	Inyo	18,577	($71,371,486)	($3,842)	($41,082,055)	($2,206)	46	-7
54	Mariposa	18,129	($80,099,278)	($4,418)	($37,130,513)	($2,046)	53	-1
55	Del Norte	27,221	($127,409,084)	($4,681)	($51,993,373)	($1,917)	43	-12
56	Sierra	3,207	($20,736,868)	($6,466)	($17,190,950)	($5,360)	58	2
57	Trinity	13,635	($92,606,153)	($6,792)	($54,192,327)	($3,977)	57	0
58	Alpine	1,154	($11,678,443)	($10,120)	($1,413,568)	($1,228)	44	-14