

County of Sonoma Citizens' Report



For the Fiscal Year 2012-13



Inside the Citizens' Report

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What Is The Citizens' Report?

The Citizens' Report is an annual report created by the Auditor-Controller-Treasurer-Tax Collector's office in order to provide important County financial data to taxpayers in a package that is both informative and suitable for those who are not finance professionals.

The Auditor-Controller-Treasurer-Tax Collector's office is dedicated to promoting transparency and fiscal accountability within local government. This Citizens' Report serves an important role in that mission of providing unprecedented access to County financial information to our taxpayers and stakeholders.

What Does the Report Cover?

The Citizens' Report for the Fiscal Year 2012-13 provides insight into the County of Sonoma's financial situation between July 1, 2012, and June 30, 2013, hereafter referred to as Fiscal Year 2012-13.

Changes from Last Year's Citizens' Report

During Fiscal Year 2012-13, the County applied new accounting standards developed by the Governmental Accounting Standards Board (GASB). GASB Statement No. 61, "Financial Reporting Entity: Omnibus," provided guidance on whether the County's legally independent business units (such as the Sonoma County Water Agency, Community Development Commission, and other non-

major units) should be presented independently from the County's financials.

As a result of the GASB's guidance, the financial information of the County's component units will no longer be "blended" into the County's financial statements. In order to provide compatibility with previous years' Citizens Reports, the Fiscal Year 2011-12 information has been restated (recalculated to indicate what last year's financial statements would have been had GASB 61 been implemented at that time) to present an accurate comparison between last year and this one.

In addition to the change above, capital assets and depreciation from last year were also restated after our office identified that some land acquired by the County had been inappropriately valued and that some capital assets had been incorrectly removed from the books.

These changes are the result of our dedication to providing accurate information using the most up-to-date accounting methodologies available.

Where Does the Data Come From?

The financial data in this report is drawn from the County's Comprehensive Annual Financial Report (CAFR), a more detailed and complete presentation of the County's finances. The CAFR was prepared in accordance with Generally Accepted Accounting Principles (GAAP) and audited by a team of independent auditors who presented the County with an unmodified (clean) opinion.

Interested parties can obtain the CAFR and Citizens' Report at www.sonoma-county.org/acttc or in our office.

Sources

The following sources were used to compile the non-financial data in this report: The Press Democrat, Real Estate Market Trends Report, California Employee Development Department, US Bureau of Labor Statistics, US Department of Housing and Urban Development, California Department of Housing and Community Development, California Department of Finance, scretire.com, Sonoma County Employee Retirement Association 2012 Popular Annual Financial Report, Sonoma County 2013 Annual Report.

A Message from the Auditor-Controller

Meet the Auditor-Controller: David E. Sundstrom, CPA



David has served the County as Auditor-Controller-Treasurer-Tax Collector since his appointment to the office in February 2012 by the Board of Supervisors. He has more than 35 years experience in governmental accounting and auditing, including serving as a member of the Governmental Accounting Standards Board since 2009.

Presenting the Citizens' Report

It is my pleasure to present to you the Sonoma County Citizen's Report for the Fiscal Year 2012-13. During this year, the economy in Sonoma County continued to show measured signs of recovery. Sonoma County's unemployment rate improved, decreasing by about 1.6% to 7.1%, and has continued to drop to 6.7% in November 2013. Housing prices have increased by approximately 20% over the past year, moving the median home price to \$440,000.

I am pleased to report, too, that there have been several positive changes at the County level which will benefit the local government and taxpayers.

Net Asset Increases

A very important figure, "Net Position, End of Year," is displayed at the bottom of page 7 of this report. Changes in this number are indicative of the overall fiscal health of the County. An increase in Net Position, which Sonoma experienced in fiscal years 2011, 2012 and 2013, represents a positive trend in the County's financial situation. In 2013, the County's net position increased by \$70.2 million, primarily as a result of revenues exceeding expenses.

Labor Negotiations

During the year, the County developed a labor negotiation strategy to resolve the County's structural budget deficit by permanently reducing costs, particularly for pensions. We were able to reach an agreement with Service Employees International Union (SEIU), the County's largest employee organization, and also reduce compensation for the Board of Supervisors, Department Heads, and most management positions. These changes will save the County \$19.7 million from March 2013 through October 2015 and save \$115.0 million in pension costs through 2023, the first full ten years of implementation.

Bond Rating Upgrade

Finally, I am happy to note that our efforts to create a sustainable, fiscally sound organization were rewarded in December 2013, when Standard & Poor's Rating Service issued a notice that the County of Sonoma's Pension Obligation Bonds had been upgraded from a AA- to a AA rating. This follows a Fitch Ratings assignment of an implied general obligation rating of AA+ in July 2012. These upgraded debt ratings comes after years of hard work by the County Administrator's Office and my own staff, and its positive impact will be felt throughout the organization. While there are no immediate plans to issue additional debt, future bonds will be issued at a lower rate, reducing the cost for area improvement projects.

Thank you,

A handwritten signature in black ink, appearing to read "D. Sundstrom". The signature is stylized and cursive, written over a white background.

County of Sonoma Government, Demographics, and Economy

About the County

Sonoma County lies about fifty miles north of San Francisco, in a community that is quickly becoming recognized as one of the premier wine-grape growing regions in North America. The county covers more than one million acres of comfortable urban living, sprawling vineyards, rolling hills, protected wetlands, and pristine outdoor recreation areas.

Almost a third of the county's 490,423 residents live in the city of Santa Rosa, the County seat; another third occupy the county's eight smaller towns and cities; and the rest are spread throughout unincorporated county land.

The citizens who live in unincorporated areas are represented in local government by the members of the Board of Supervisors.

County Government

Overview and Administration

Policymaking and legislative authority for Sonoma County is vested in the County Board of Supervisors (the Board). Board members are elected for staggered four-year terms, and each member represents one of the County's five districts. A County Administrator is appointed by the Board to assist in managing, directing, and coordinating the operations of all County departments.

Four County departments—the Sheriff, the District Attorney, the Auditor-Controller-Treasurer-Tax Collector, and the Clerk-Recorder-Assessor—are led by elected department heads. The other departments have their heads appointed by the Board.

Staffing, Resources, and Services

The County employs approximately 3,930 full-time equivalent employees in order to provide a full range of services to its residents. Citizens residing in

The Board of Supervisors



unincorporated areas of the county receive most of their municipal services from the County, including law enforcement, land use and zoning, building permits, local road building and maintenance, animal care and control, and public libraries. In addition, most services performed by the County are provided for all residents, regardless of whether those residents live in cities or unincorporated areas. The County's principal functions include seven major areas: general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and cultural services. Every resident of the county, directly or indirectly, benefits from these services.

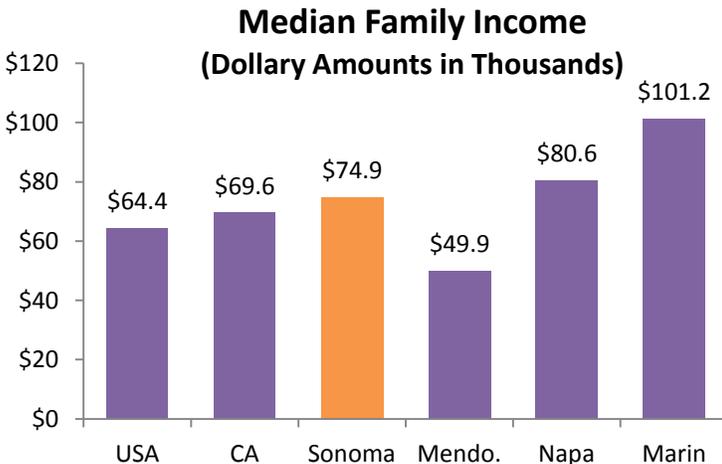
Demographics and Economy

Population Growth

Despite strong unemployment and other economic numbers, Sonoma County's population experienced only minor growth in the last year, reaching 490,423 residents, two-thirds of whom live within one of the county's nine incorporated cities and towns. The remaining third of the population lives in unincorporated areas. These growth numbers represent an increase of 3,412 residents (0.7%) over the previous year, a significant increase following a trend of relatively stable population numbers in the county. Over the last five fiscal years, the county's total population has increased by 0.8%.

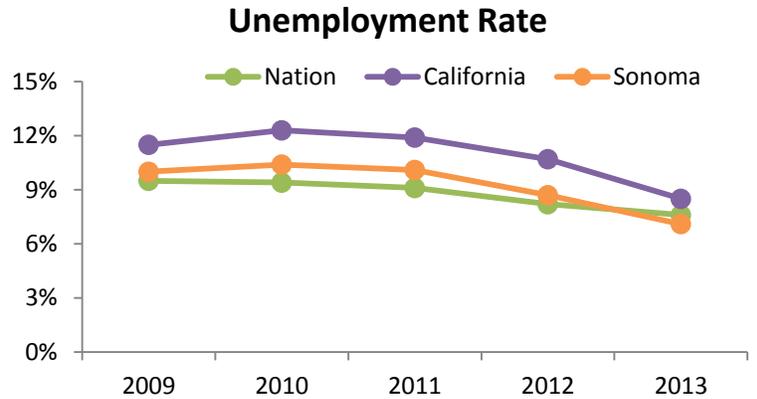
Median Family Income

The county's median family income during the year was \$74,900. This value places Sonoma ahead of state and national averages but slightly below that of neighboring Napa and Marin counties.



Unemployment

County unemployment has now decreased for three years in a row, dropping to 7.1% by June 2013. These unemployment statistics were supported by the continued strong performance numbers in countywide agricultural and tourism industries.

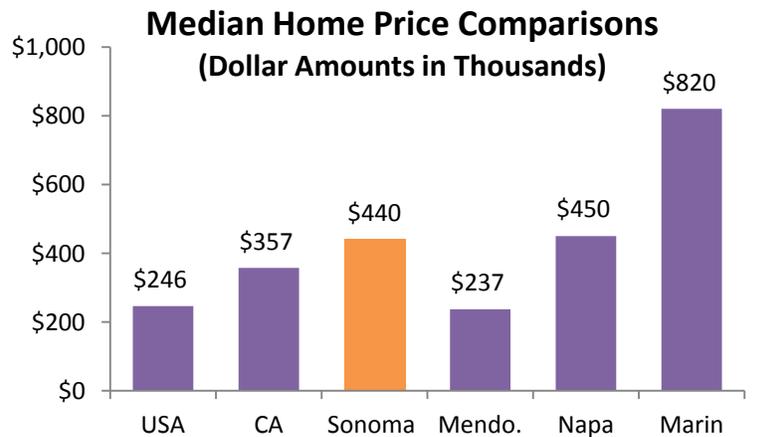
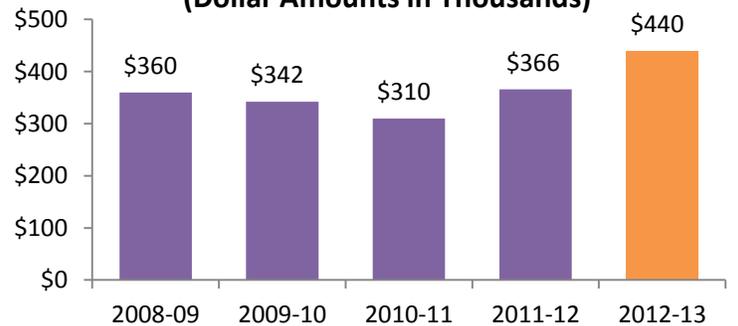


Employment gains within the county have continued into late 2013, dropping the unemployment rate to 6.7% in November.

Median Home Price

2012-2013 was a strong year for Sonoma County home prices, with median home prices increasing to \$440,000, a 20% increase over the year before.

County Median Home Price Changes

(Dollar Amounts in Thousands)


Financial Summary and Trends

Overview

This section is designed to provide a high-level overview of the County's financial health and stability. It includes information on significant trends and a summary of the County's major sources of revenues and use of funds. This information provides a general understanding of how the County utilizes its resources to provide public services.

About Assets and Liabilities

Assets: The County's listed assets represent anything of value (equipment, real estate, cash) the County owns.

Liabilities: The County's liabilities indicate all of the debts and future obligations that the County will have to pay.

Net Position: Net position is the sum of all the County's assets minus its liabilities. A trend of increases to net position is an indicator that an organization's financial status is improving.

The Statement of Net Position

The Statement of Net Position presents the County's financial position from a long-term perspective.

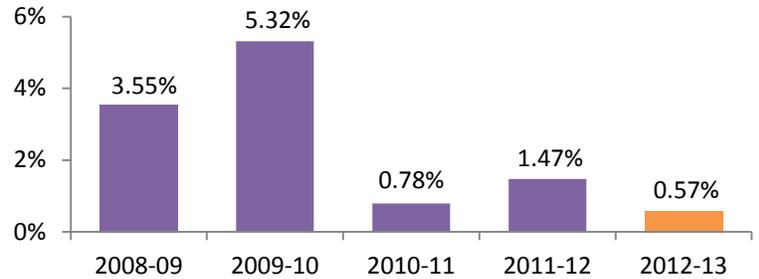
Statement of Net Position (Dollar amounts in Thousands)

FISCAL YEAR	2012-13	2011-12	Change
ASSETS			
Current and other assets	\$ 1,131,147	\$ 1,243,751	\$ (112,604)
Capital Assets	1,287,964	1,280,638	7,326
Total Assets	2,419,111	2,524,389	(105,278)
LIABILITIES			
Current and other liabilities	82,550	217,234	(134,684)
Long-Term Liabilities	918,910	959,667	(40,757)
Total Liabilities	1,001,460	1,176,901	(175,441)
NET POSITION			
Net Capital Assets	1,140,456	1,121,959	18,497
Restricted	235,434	232,798	2,636
Unrestricted	41,761	(7,269)	49,030
Total Net Position	\$ 1,417,651	\$ 1,347,488	\$ 70,163

Capital Assets

Capital assets indicate the value of real property (such as buildings, industrial equipment, vehicle fleets, etc.) owned by the County.

Growth in Capital Assets



The largest component of the County's net position is its net capital assets (the cost of all the County's assets less the accumulated depreciation and outstanding debt related to acquiring the assets). Although the County's Net Capital Assets are reported net of related debt, the capital assets themselves cannot be used to liquidate the County's debt, and so the resources needed to pay these liabilities must be provided from other resources.

In Fiscal Year 2012-13, \$1.1 billion, or 80.4%, of the County's net position was made up of net capital assets.

Restricted Net Position

In Fiscal Year 2012-13, \$235.4 million, or 16.6%, of the County's net position was restricted. Restricted resources are those which are subject to external regulations on use. An example of a restricted resource would be a grant given to the County to improve public safety. Grantors, contributors, laws and regulations, constitutional provisions, or legislation passed by federal, state, or local governments can all impose regulations on restricted assets.

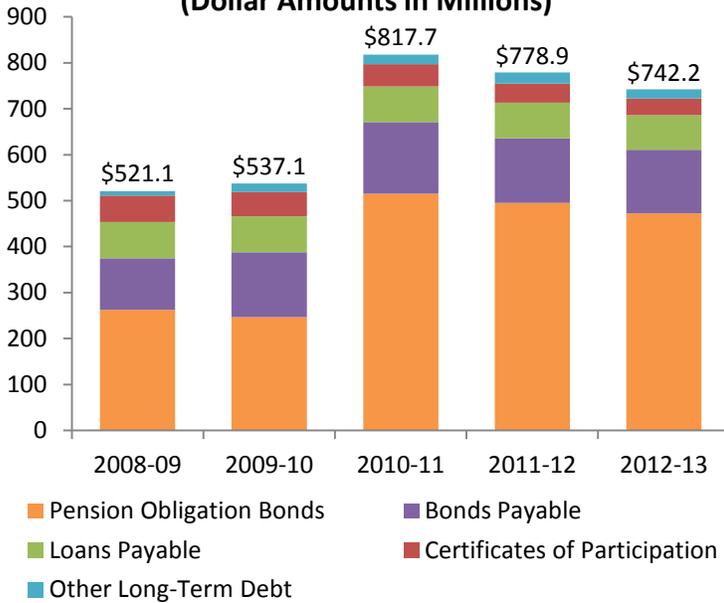
Unrestricted Net Position

The final component of net position is unrestricted net assets. Unrestricted net assets are resources that can be used to meet ongoing obligations to citizens and creditors. In Fiscal Year 2012-13, \$41.8 million, or 2.9%, of the County's net position was unrestricted.

Long-Term Debt

At the end of Fiscal Year 2012-13, the County's long-term debt of bonds, notes, and certificates of participation totaled \$742.2 million, a decrease of \$36.7 million, or 4.7%, from the previous year's total. This reduction in total debt was primarily achieved through the repayment of \$23 million in Pension Obligation Bonds.

County Debt
(Dollar Amounts in Millions)



Liabilities vs. Long-Term Debt

You may notice that the debt listed to the left does not match the liabilities indicated on the Statement of Net Position. That is because liabilities include both the County's long-term debt and other obligations which have been incurred but not yet been paid.

The Statement of Activities

The following table compliments the Statement of Net Position by providing additional details about the governmental activities that impacted the net position.

Statement of Activities

(Dollar Amounts in Thousands)

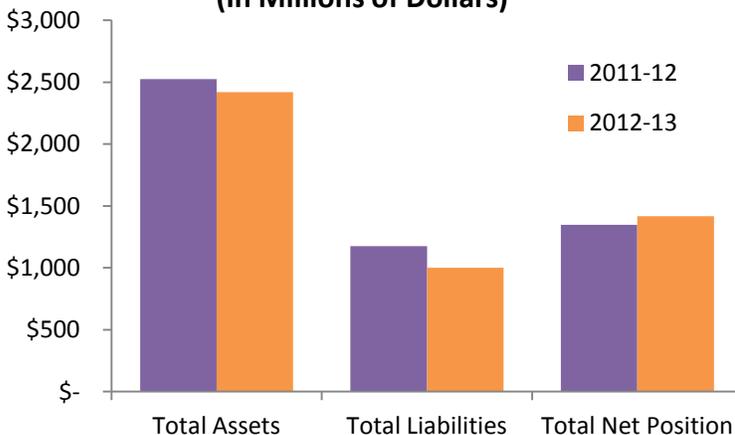
FISCAL YEAR	2012-13	2011-12
PROGRAM EXPENSES		
General Government	\$ 85,310	\$ 73,075
Public Protection	241,671	229,093
Public Ways	33,573	32,421
Health and Sanitation	116,742	111,819
Public Assistance	186,547	173,641
Education	605	870
Recreation and Cultural Services	12,465	12,560
Interest on Long-Term Debt	43,801	43,675
Refuse	32,803	33,169
Airport	4,283	3,985
Energy Independence Program	3,681	4,487
Transit	15,967	15,617
Community Hospital	192	540
Fair	10,743	10,901
Spud Point Marina	2,284	2,482
Other Programs	1,693	1,229
Total Program Expenses	792,360	749,564
REVENUES		
Program Revenues		
Charges for Services	\$ 168,001	\$ 153,762
Operating Grants and Contributions	416,736	408,112
Capital Grants and Contributions	13,456	11,949
General Revenues		
Property Taxes	183,429	171,431
Documentary Transfer Taxes	4,301	3,390
Transient Occupancy Taxes	9,705	8,757
Grants and other Gov't Revenues	34,360	33,028
Unrestricted Investment Earnings	9,749	15,946
Other General Revenues	21,443	24,294
Total Revenues	861,180	830,669
Extraordinary Items	1,343	15,455
Change in Net Position	70,163	96,560
Net Position, beginning of year, restated	1,347,488	1,250,928
Net Position, End of Year	\$ 1,417,651	\$ 1,347,488

Net Position

Over the course of Fiscal Year 2012-13, the County's government-wide net position increased by \$70.1 million, an increase of 5.2% over the prior year.

During the year, the county's total assets decreased by \$105.3 million, but a decrease of \$175.4 million worth of liabilities offset that loss and resulted in the \$70.1 million improvement to the County's total net position.

Net Position
(In Millions of Dollars)

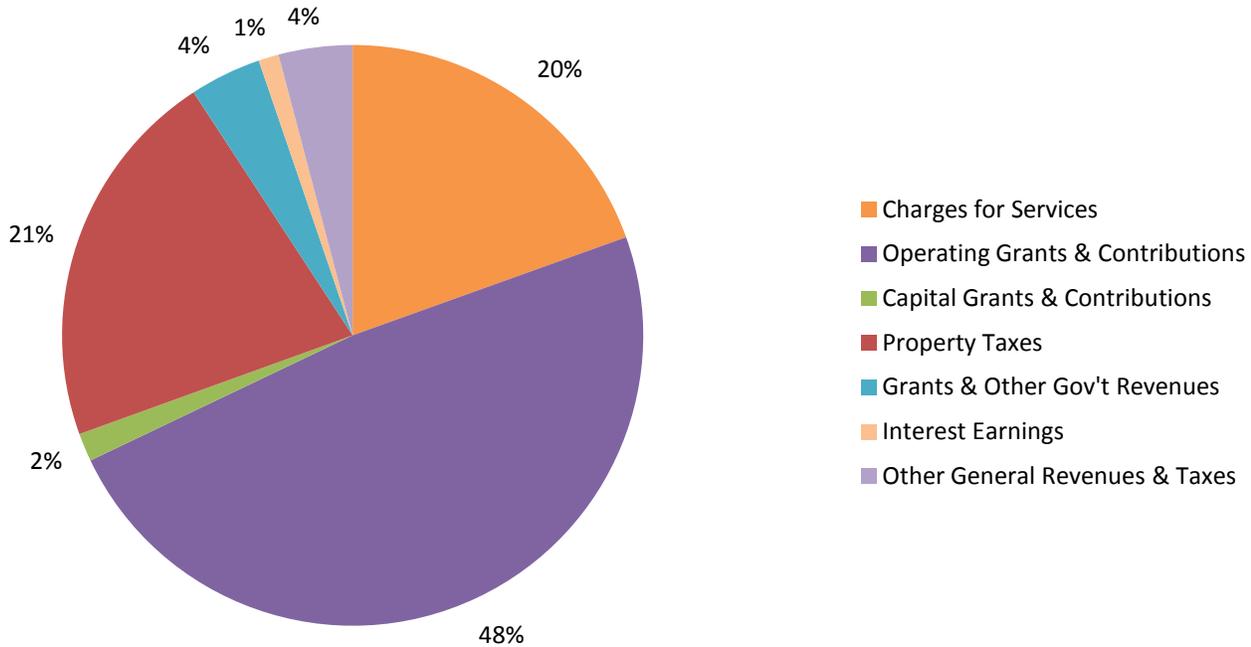


County Revenues and Expenses

Total Revenues

The County's total revenues for Fiscal Year 2012-13 were \$861 million, an increase of \$30 million from the previous year. These revenues are derived from two broad sources: program revenues, which include items such as grants and charges for services, and general revenues, which include items such as taxes and investment returns.

Where the Money Comes From
(As a percentage of \$861 million)

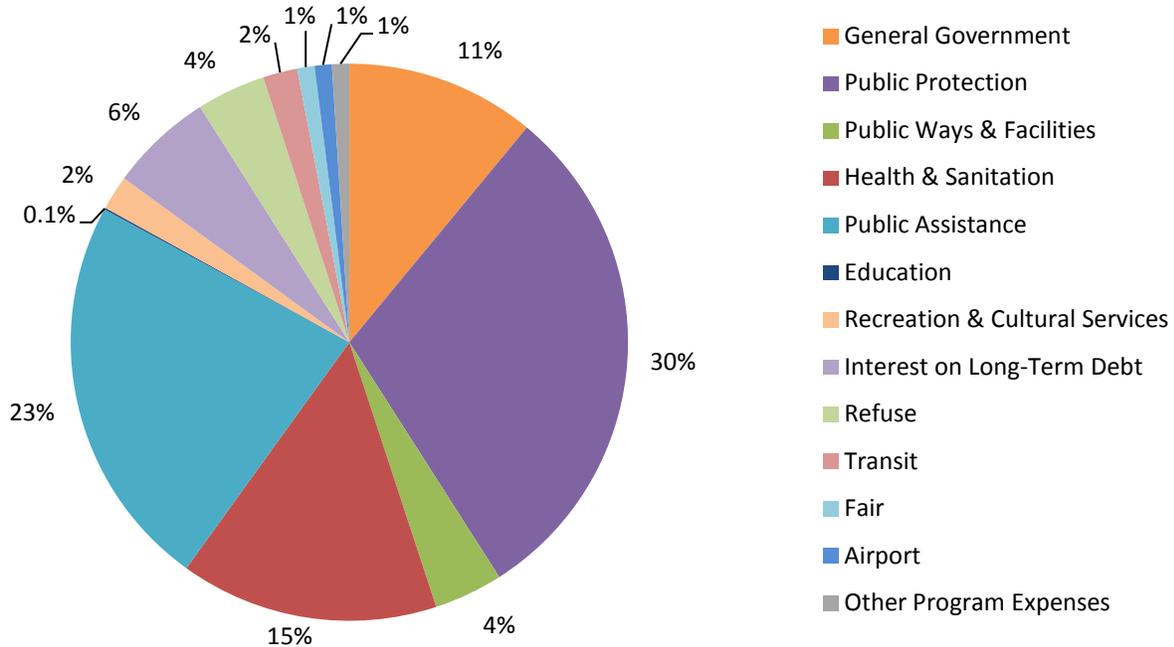


Revenue Source	Amount	Description
Charges for Services	\$168 million	Charges for Services are revenues collected through charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided. Charges for Services revenues increased by \$14.2 million, or 9.2%, over the previous fiscal year.
Operating Grants & Contributions	\$417 million	Operating grants and contributions increased by \$8.6 million, or 2%, over the last fiscal year. These funds are received from non-County parties, such as State or Federal governments, and are generally restricted to use by specific programs (such as public protection).
Capital Grants & Contributions	\$14 million	Capital grants and contributions increased by \$1.6 million, or 13.4%.
Property Taxes	\$183 million	Property taxes are collected based on the assessed value of real property (i.e., buildings and land), business personal property (i.e., heavy equipment), and other property (i.e., boats) located within the County. These revenues increased by \$12 million, or 7%, from the previous fiscal year. The increase was primarily attributable to the distribution of assets from the dissolved Redevelopment Agencies.
Grants and Other Governmental Revenues	\$34 million	Grants and other governmental revenues are generally not restricted to specific programs. These revenues increased by \$1.3 million, or 3.9%, over the previous fiscal year.
Interest Earnings	\$10 million	Unrestricted investment earnings decreased by \$6.2 million, or 39%, due primarily to the effects of GASB 61 and low rates of return on investments available in the current market.
Other General Revenues & Taxes	\$35 million	Other revenues decreased by \$1.1 million, or 3%, from the previous fiscal year.

Total Expenses

The County's total expenses for Fiscal Year 2012-13 were \$792 million, an increase of \$43 million, or 5.7%, over the previous year. Expenses are classified by the function or service that they fund.

Where Your Money Goes
(As a percentage of \$792 million)



Expense	Cost	Purpose
General Government	\$85 million	County operating costs, such as the Board of Supervisors, County Administrator, County Counsel, Human Resources, and the Registrar of Voters are considered general governmental expenses.
Public Protection	\$242 million	Community protection services consist of the Sheriff-Coroner, District Attorney, Adult Probation, Juvenile Probation, Public Defender, and Emergency Services.
Public Ways and Facilities	\$33 million	Consists of Transportation and Public Works and includes repairs and maintenance of public roads.
Health and Sanitation	\$117 million	Includes Public Health, Environmental Health, Mental Health, and Alcohol and other Drug Services.
Public Assistance	\$186 million	Consists of Human Service programs such as Economic Assistance, Employment and Training, Adult and Aging, as well as Child Support Services and In-Home Support Services
Education	\$1 million	Includes the Sonoma County Library and the University of California Cooperative Extension.
Recreation and Cultural Services	\$12 million	Represents operations and maintenance of the County's regional and community parks, campgrounds, swimming facilities, and trails.
Interest on Long-Term Debt	\$44 million	Includes the indirect interest expense paid on general long-term debt incurred by the governmental functions.
Refuse	\$33 million	Operations, expansion, and closing of landfills and transfer stations.
Transit	\$16 million	Represents operations and maintenance of the County's transportation system.
Fair	\$11 million	Represents costs and maintenance for the County's Fair operations.
Airport	\$4 million	Represents operations, maintenance, and expansion of the Airport.
Other Program Expenses	\$8 million	Includes operations and maintenance for the Sonoma County Energy Independence Program, Community Hospital, Spud Point Marina, and other enterprise districts.

Component Units

Component Unit Description

In the past, the Statement of Net Position and the Statement of Activities of the Water Agency, the Community Development Commission (CDC), and the five "Non-Major" component units had been "blended" within the County's reported financial information. As the result of a required change in governmental accounting principles, the financial information of these legally separate entities will now be segregated from the financial statements of the County.

Non-Major Component Units

Included in the "Non-Major" category are the Sonoma County Library and the Sonoma Valley, Russian River, South Park, and Occidental Sanitation Districts. Although these entities are grouped for this presentation, stand-alone financial statements of these entities have been prepared and are available by contacting the Sonoma County Auditor-Controller-Treasurer-Tax Collector.

Financial Highlights

Sonoma County Water Agency

The assets of the Water Agency exceeded its liabilities at the close of the fiscal year by \$375.8 million (net position). Of this amount, \$50.6 million is unrestricted net position available to meet the Agency's obligations.

Property tax revenues for the Water Agency totaled \$20.1 million, including \$5.4 million levied for debt retirement and maintenance related assurances with the U.S. Army Corps of Engineers for Warm Springs Dam.

Community Development Commission

The CDC's net position increased to \$81.4 million in Fiscal Year 2012-13, a 5.9% increase over the year before. \$3.5 million of the increase was due to the transfer of housing assets from the City of Sonoma Community Development Agency. The Commission's largest program is the Housing Choice Voucher Program, which helps low-income families

obtain safe, affordable housing. In Fiscal Year 2012-13, the U.S. Department of Housing and Urban Development recaptured Housing Assistance Payment funds from local housing authorities, decreasing the program's net position by \$1.2 million.

Statement of Net Position (Dollar Amounts in Thousands)

	CDC	Water Agency	Non-Major
ASSETS			
Current and other assets	\$ 72,516	\$ 191,704	\$ 48,881
Capital Assets	9,915	357,039	117,577
Total Assets	<u>82,431</u>	<u>548,743</u>	<u>166,458</u>
LIABILITIES			
Current and other liabilities	831	16,512	4,159
Long-Term Liabilities	236	156,414	41,321
Total Liabilities	<u>1,067</u>	<u>172,926</u>	<u>45,480</u>
NET POSITION			
Net Capital Assets	9,915	203,805	82,727
Restricted	71,449	121,422	14,185
Unrestricted	-	50,590	24,066
Total Net Position	<u>\$ 81,364</u>	<u>\$ 375,817</u>	<u>\$ 120,978</u>

Statement of Activities (Dollar Amounts in Thousands)

	CDC	Water Agency	Non-Major
FUNCTION/PROGRAM ACTIVITIES			
Expenses	\$ (34,486)	\$ (64,337)	\$ (36,925)
Program Revenues			
Charges for Services	1,104	45,611	21,696
Operating Grants/Contributions	34,052	4,449	671
Capital Grants/Contributions	3,467	2,163	4,364
Total Expenses and Program Revenues	<u>4,137</u>	<u>(12,114)</u>	<u>(10,194)</u>
GENERAL REVENUES			
Property Taxes	-	20,115	15,183
Unrestricted Invest. Earnings	410	700	434
Gain on Sale of Capital Assets	-	198	-
Other General Revenues	-	-	94
Total General Revenues	<u>410</u>	<u>21,013</u>	<u>15,711</u>
Change in Net Position	<u>4,547</u>	<u>8,899</u>	<u>5,517</u>
Net Position, beginning of year, as restated	76,817	366,918	115,461
Net Position, End of Year	<u>\$ 81,364</u>	<u>\$ 375,817</u>	<u>\$ 120,978</u>

The Sonoma County Retirement System

About the Retirement System

What is SCERA?

Employees of the County of Sonoma are enrolled in the Sonoma County Employee Retirement Association (SCERA), a pension trust fund paid for through employee and employer contributions. SCERA is run as an independent, defined-benefit retirement plan governed by a nine member Board of Retirement.

Public Employee Pension Reform Activity

In November 2012, the Retirement Association adopted changes required by AB 340 and AB 197, statewide legislation which will cause some salary and benefits paid out after January 1, 2013, to no longer be included in income calculations that determine retiree benefits.

Program Statistics

Fiscal Year

SCERA's most recent fiscal year was Jan 1 - Dec 31, 2012.

Enrollment Figures

SCERA's membership of 7,878 people is currently divided into 4,258 retired employees and 3,620 active employees.

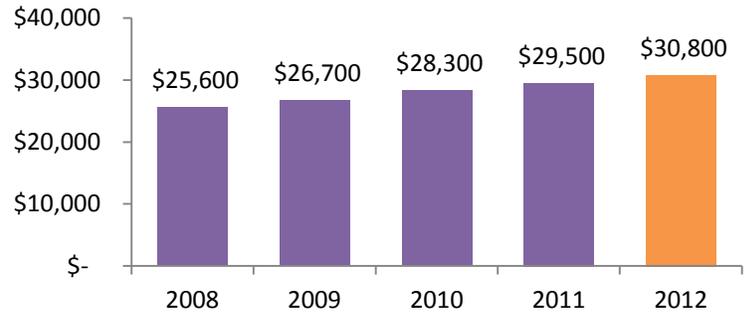
Revenues and Expenses

SCERA benefits are funded through three primary mechanisms--investment returns, employee contributions, and employer contributions. For Fiscal Year 2012, revenues for SCERA totaled \$324.6 million, \$242 million of which was generated through investment returns.

The provision of retiree benefits constitutes a vast majority of SCERA expenses, accounting for \$123.8 million of the group's \$129.4 million in annual expenditures. The other \$5.6 million go toward the refunding of contributions for employees who leave County employ prior to retirement and a variety of administrative and miscellaneous costs.

Pension Amounts

The average SCERA pension is \$30,800 per year. This number represents an increase of \$1,300, or 4.4%, over last year's average pension draw.



Pension Obligation Bonds

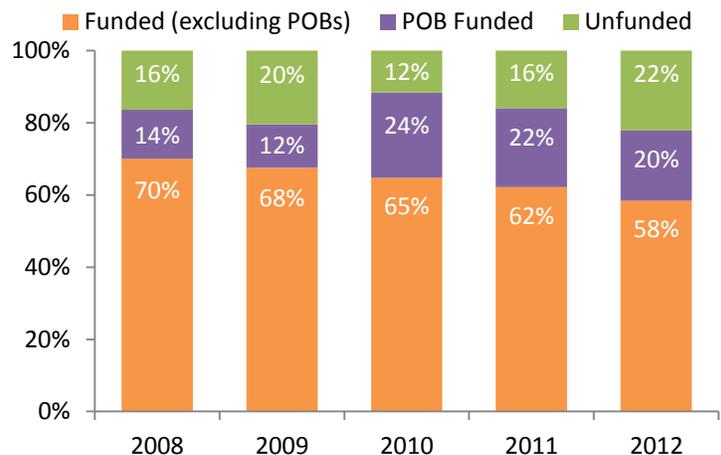
A Pension Obligation Bond (POB) is a bond issuance made by an organization that aims to use borrowed funds to generate a higher rate of return than the cost of the debt.

The County issued POBs in 1993, 2003, and 2010. As of December 31, 2012, the combined outstanding balance of the County's three POBs was \$465.2 million. In June 2013, the County made its final payment on the 1993 POB, reducing the total outstanding balance by \$13.9 million.

Sustainability

As of December 31, 2012, the date of the last actuarial valuation, the funding ratio for SCERA was 78%. A 100% funding ratio would indicate that there are sufficient funds and revenues to pay all current and future obligations.

SCERA Funding Ratios



Highlights

Your Tax Dollars at Work

This section highlights some of the ways that your tax dollars make Sonoma County a wonderful place to live.

Welcome to Taylor Mountain

Regional Parks opened Taylor Mountain Regional Park and Open Space Preserve in southeast Santa Rosa in early 2013. Taylor Mountain's 1,100 acres were acquired over the span of two decades by the Sonoma County Agricultural Preservation and Open Space District. With its central location and spectacular views, Taylor Mountain has quickly become one the most popular county parks. Regional Parks is currently developing Taylor Mountain's next phase - trails, picnic sites, a natural play area, and equestrian facilities off of Petaluma Hill Road.



Runway Safety Improvement Project

In 2012, the Board of Supervisors authorized a project to improve safety and extend the runway at the Charles Schulz Sonoma County Airport, increasing the airport's maximum capacity.

More than 1.3 million passengers have traveled through the airport since March 2007, and the new improvements should allow many more to do so in the future.

Dedication to Roadway Improvement

In Fiscal Year 2012-13, the Board of Supervisors dedicated an additional \$2.2 million per year to help preserve the County's primary road system, bolstered by an additional, one-time \$8 million investment. This brought the year's

total state, federal, and local investment in our county's road infrastructure up to \$20.4 million.

Providing Cleaner Energy Alternatives

The Sonoma County Water Agency and County Counsel's office collaborated to create a new, locally controlled, not-for-profit electricity provider in Sonoma County. The Water Agency conducted a feasibility study, led a steering committee and crafted an implementation plan for Sonoma Clean Power, whose goal is to provide customers with 33% renewable power at launch (increasing to 50% by 2020) at competitive prices, and to create local jobs through the development of renewable energy projects.

Reporting Awards

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the County of Sonoma for its Citizens' Report for Fiscal Year 2011-12. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

