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Date: June 11, 2019
To: Members of the Board of Supervisors
From: Sheryl Bratton, County Administrator
Re: General Fund Reserves

The FY 2019-20 Recommended Budget does not include use of reserves. The County Administrator is recommending a one-time directing a portion of year-end unassigned fund balance to replenish the General Fund Reserve up to \$5 million in FY 2019-20 should yearend fund balance be available. As the State follows the resilient fiscal practice of adding to their reserves now to prepare for the predicted downturn in the economy, the County is building its fiscal resiliency through prudent use of Reserves.

Current General Fund Reserve Policies

Given disasters will occur again and to help preserve the County's positive credit rating, last year the Board adopted the establishment of a General Fund Reserve minimum funding level (one month's general fund revenues or 8.3%) and a Replenishment plan. The policy states:

- 1) *The Board will maintain a minimum level of unassigned General Fund Reserve balance equal to 1/12 (8.3%) or 1 month of annual General Fund revenues.*
- 2) *Replenishing General Fund Reserve- Anytime the Board authorizes drawdown of Reserves, staff will present a re-payment schedule which shall include the amount of state/federal reimbursements expected to be received.*

For purposes of the FY 2019-20 Recommended Budget, the targeted reserve amount of two months' general fund revenues equal \$80.5 million. As detailed below, the Recommended Budget includes \$44.6 million in reserves, including \$3.9 million assigned for the 20% FEMA

Audit, leaving \$40.7 million available which represents 8.4% of general fund reserves and is \$0.5 million above the minimum reserve policy of \$40.2 million.

The Board also adopted a Federal Emergency Management Agency (FEMA) Audit Reserve specific to the 2017 wildfires to ensure the County has adequate resources set aside to pay for any reimbursements disallowed by the Office of Inspector General (OIG). The OIG generally conducts its audits several years after claims are filed, up to three years after the claim is closed out. The purpose of the FY 2018-19 approved financial policy associated with Reserves was to establish an initial FEMA Audit Reserve and to define the procedures for increasing or decreasing the reserve by describing that an assignment within the county's General Fund Reserve would be recorded rather than creating a separate FEMA Audit Reserve.

Use of FEMA Audit Reserve Funds

The FEMA Audit Reserve fund balance assignment will be used to pay for any claims that are disallowed as a result of an OIG audit. The FY 2019-20 Recommended Budget includes \$3.9 million set aside for the FEMA Audit Reserve. The ACTTC, CAO, and County Counsel staff will periodically assess the reasonableness of the reserve balance and recommend an increase or decrease as necessary. Reserves will be calculated and maintained on a FEMA project by project basis. A total of \$3.9 million audit reserve has been assigned within the General Fund reserve, which represents 20% of FEMA claim costs incurred by the General Fund.

Adjustments will be recommended to the Board for approval as part of the annual budget. Federal audit of recent disasters has not yet started. Thus, adjustments to report as part of the 2019-20 budget are not being recommended at this time.

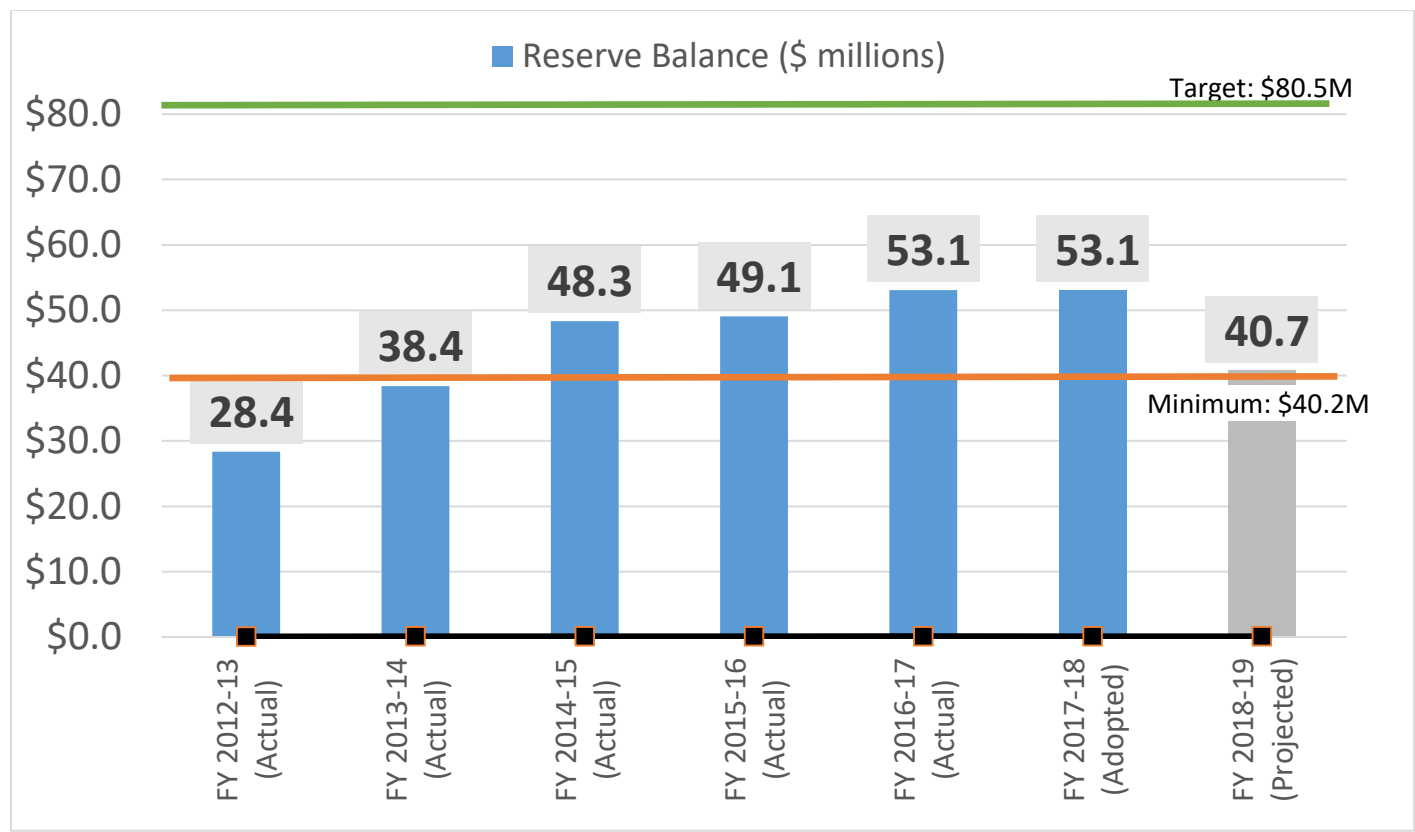
Current Projections

In FY 2018-19, the Board adopted that \$8.5 million be assigned to finance strategic disaster recovery and resiliency investments. Of the \$8.5 million, the Board has designated \$6.8 million for recovery projects and grant matches over the next three years starting in FY 2019/20, and \$1.7 million for information technology resiliency. Any draw on the assignments will return for the Board's consideration. The General Fund midyear changes, accessing the established Strategic Wildfire Recovery and Resiliency designation, included:

- On 02/26/2019 \$688,000 was programmed for the new Learning Management System (\$338,000) and disaster recovery contracts; and (\$350,000) was programmed for disaster management contracts critical in assisting the County in maximizing federal funding and reimbursements.
- On 04/30/2019 \$1.7 million was programmed into the Information System department budget to execute the implementation of measures that will result in a technology infrastructure with enhanced resiliency and redundancies.

This will leave \$6.1 million available for other projects, including matches for Hazard Mitigation Grant Program projects that may be awarded in the coming months. The available balance of the Recovery and Resiliency Set Aside dedicates \$4 million for General Fund match toward pending Hazard Mitigation Grant Program (HMGP) requests, \$900,000 for HMGP program administration, and \$1.2 million available for the Board to program toward Recovery and Resiliency projects (See Tab 25 Exhibit A).

In addition, the General Fund 2nd Quarter Consolidated budget adjustments recognized \$3.5 million in additional property tax revenue based on the final assessment rolls from August 2018, which enabled the County to reverse the use of \$2.7 million in General Fund Reserves which were adopted in the FY 2018-19 budget.



Body Text