DATE: June 11, 2019

TO: Members of the Board of Supervisors

FROM: Sheryl Bratton, County Administrator

SUBJECT: Fund Balance Directory

This memo presents a review of all budgetary funds with restricted uses governed by the Board. The purpose of this report is to review estimated balances and verify the appropriateness of the restrictions for each fund. The combined County and Agency fund list is estimated to have a FY 2019-20 year-end total balance of approximately $728 million and $769 million with Reserves. Of the total, $40.7 million represents the General Fund Reserves including the $3.9 million as the 2017 Wildfire Audit Reserve.

One of the objectives of the funds review is to assess whether funds can be released for Board priorities. This year, I am recommending the following release of $2.8 million of various discretionary fund balances be included in the Budget Balancing Tool for the Board’s deliberations of restoration/add-back and program change requests:

1. $348,000 from the Non-Tort Liability fund, this amount is available due to the creation of a new legal fund contingency
2. $500,000 available from the Malpractice Insurance balance
3. $314,000 available from Disability Insurance balance
4. $1,619,661 available from Enterprise Financial System repayments to the General Fund

Other fund balances totaling $24.7 million are recommended for the Board’s deliberation included in the Budget Balancing Tool include:

1. $2,000,000 available from Teeter one-time
2. $2,600,000 available from Cannabis Tax one-time
3. $18,900,000 available from Graton Mitigation one-time
4. $1,200,000 available from the Recovery and Resiliency set aside for recovery and resiliency projects one-time
Fund Balance Directory - Overview of Funds

The County and dependent agencies, like all governments, use different funds to properly track and avoid comingling of resources. The practice of accounting for resources by fund improves transparency and fiscal responsibility in managing the public’s money. Not only does this report provide a clearer relationship between the sources and their uses, but it also allows for separation of reserve funds to address unanticipated future needs to protect continuity of vital services when the economy declines or in the event of an emergency.

Government funds are designed to report the difference between revenues, expenditures, assets, and liabilities as fund balance. Funds are typically designated as either restricted or unrestricted. There are many reasons for placing restrictions on funds. For example, there may be legal restrictions attached to certain funds set by statute. In other situations, funds may be restricted by the funding source. In addition, the Board may decide to restrict funds through adoption of a specific policy.

Unless the use of funds is already prescribed by legislation or granting agency, funds that consistently carry a $5 million or more balance must, in compliance with the County’s Financial Policies, have a Board approved fund policy. Pursuant to the Board’s direction during the Fund Balances review on November 3, 2015, staff has identified funds with estimated balances of $1 million or more.

There are approximately 572 budgetary funds and specific General Fund designations that are governed by the Board of Supervisors as well as the Board of Directors of the Water Agency, Agricultural Preservation & Open Space District, Community Development Commission, and several special districts governed by the Board, providing fire, sanitation, lighting, landscape, park, water, and other community services.

Government accounting standards require funds to be categorized either as “Governmental” or “Proprietary.” “Governmental” funds record typical municipal functions such as law enforcement, while “Proprietary” funds account for goods and services provided by one department to another department, such as the cost of the Human Resources and Enterprise Financial Systems, or to the public for a fee or charge, such as the Airport leasing airplane hangar spaces.

Governmental Funds

The following is a summary of the estimated FY 2019-20 year-end Governmental balances by fund type.
<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Description</th>
<th>Fiscal Year-End 2019-20 Estimated Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Districts</td>
<td>Accounts for entities’ funds established for a specific public service, e.g. Water Agency, Community Development.</td>
<td>$264,748,374</td>
</tr>
<tr>
<td>Special Revenue</td>
<td>Tracks use of funds for services primarily delivered on behalf of state/federal agencies, e.g. Health and Human Services or Road programs.</td>
<td>$190,752,678</td>
</tr>
<tr>
<td>General</td>
<td>Used by the County for main operations primarily financed with tax revenue as well as fees and charges for services, e.g. Sheriff.</td>
<td>$116,349,587</td>
</tr>
<tr>
<td>Debt Service</td>
<td>Ensures debt service obligations are met, e.g. Open Space Tax Bonds issued by the County.</td>
<td>$13,343,555</td>
</tr>
<tr>
<td>Capital Projects</td>
<td>Represents non-operating resources for Parks and General government facilities (not including Roads) financed with one-time funds and outside funding.</td>
<td>$677,152</td>
</tr>
<tr>
<td>Total</td>
<td>GOVERNMENTAL FUNDS</td>
<td>$584,841,346</td>
</tr>
</tbody>
</table>

**General Fund Balance**

The following provides further details on the restricted balances within the General Fund. Of the $116 million, $40.7 million represents the General Fund Reserve. Estimated restricted General Fund balance consists of the following categories (see Attachment A for details):

- **$18.3 million for Equipment Replacement – Attachment A pages 2 to 4**
  Funds established to accumulate monies in anticipation of scheduled replacements such as fleet vehicles, computer desktops, facilities, technology upgrades, law enforcement communications system and devices, Probation supervised adult crew equipment, and voter equipment.

- **$8.5 million for Reinvestment and Revitalization - Attachment A page 5**
  Funds represent property tax redirected from dissolved Redevelopment Areas to the County’s General Fund and segregated by Board policy to finance former Redevelopment Area projects and community improvement investments. Based on prior Board direction $7 million has been earmarked for Springs HUB, parking mitigation, annexation, TMDL MOU, and the Guerneville Homeless Shelter leaving a balance of $271,656 after County Administrator recommendations for Health redirects toward Residential Care Facilities, Behavioral Health Adult staffing, and one-time Health contracts (See Tab 25 – Exhibit A).

- **$35.9 million for Tribal Impacts - Attachment A page 6**
  Funds include $34.6 million in the Graton Mitigation Fund, consisting of $5.8 million held in pre-operating and operational reserves, $28.8 million in balance for various mitigation...
purposes. This balance includes $2 million that is recommended for use in supplemental adjustments and anticipated revenues whose receipt is uncertain. Additionally, $1.3 million in the Dry Creek Mitigation Fund, consisting of $1.3 million reserved for the Geyserville Specific Plan and follow up projects. See Tab 6 for further discussion.

• $1.1 million Restricted by the Type of Source - Attachment A pages 7 - 8
  Funds primarily represent sources intended for a specific use, which includes $159k for Sonoma County Energy Watch for energy incentives, $157k for District Formation, $229k for Mark West Spring projects, and $414k for Small Water Systems.

• $12.0 million for Specific Uses - Attachment A page 9
  Funds set aside for distinct purposes such as Refuse Franchise Fees $2.1 million for financing part of the County’s Pavement Preservation program and covering landfill environmental requirements, and State Mandates audit reserve, kept to address potential repayments in the event of an adverse audit. Additionally, Cannabis Tax has $2.6 million available, October 2017 Wildfire Disaster Fund has $3.9 million that related to the FEMA claim and as funds are made available, will be directed to the General Fund Reserves according to the replenishment policy.

Special Revenue Balance
  The following provides further details on the balances within the Special Revenue Funds. The total for FY 2019-20 is $190.8 million. Below are highlights of the major components in Attachment B:
  • Human Services includes $15.6 million of various reserves.
  • Transportation and Public Works includes $50.2 million for road, bridges, and public information access.
  • Department of Health Services includes $42.8 million of various reserves including mental health services and 1991 Realignment.
  • Sheriff’s Office has $10 million of reserves for specific projects and operations support.
  • Probation has $22.3 million toward programs for adult and juvenile offenders and community corrections.
  • District Attorney’s Office includes $6.1 million for consumer protection, fraud, auto theft, family justice, and other programs.
Proprietary Funds

Proprietary Funds are used to track business-type activities performed by the County and Agencies. For example, the Transit Division of the Transportation and Public Works Department collects fares from passengers. Given the business nature of these funds, non-cash values such as asset values and unfunded liabilities are included when reviewing fund balances. As a result, Proprietary funds are stated in term of a “Net Position” rather than a “Budgetary Fund Balance” in accordance with government accounting standards. Last year’s report excluded non-liquid assets. However, to match the system or record, all assets will be accounted for going forward.

The following is a summary of the estimated FY 2019-20 year-end Proprietary Net Position (assets minus liabilities) by fund type, excluding Pension Obligations.

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Proprietary Funds</th>
<th>Fiscal Year-End 2019-20 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise</td>
<td>Goods or services provided in exchange for a Board established fee or charge. E.g. Airport, Spud Point Marina.</td>
<td>$89,293,635</td>
</tr>
<tr>
<td>Internal Services</td>
<td>Charges collected by departments/agencies for centrally provided services. E.g. Workers' Comp., Information Systems, Equipment Rentals, etc.Includes Water Agency’s facilities and power programs.</td>
<td>$93,970,737</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>PROPRIETARY FUNDS WITHOUT PENSION</strong></td>
<td><strong>$183,264,372</strong></td>
</tr>
</tbody>
</table>

Pension Liabilities

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Proprietary Funds</th>
<th>Fiscal Year-End 2019-20 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>PROPRIETARY FUNDS WITHOUT PENSION</strong></td>
<td><strong>$183,264,372</strong></td>
</tr>
<tr>
<td>Internal Services</td>
<td>Tracks programs’ contributions for Retirement and Pension Obligation Debt. Offset by the associated net pension liability calculations in compliance with Governmental Accounting Standards Board Statement No. 68.</td>
<td>($724,000,000)</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>PROPRIETARY FUNDS WITH PENSION</strong></td>
<td>($540,735,628)</td>
</tr>
</tbody>
</table>

The estimated Pension related funds combined Net Position is driven by financial reporting requirements established by the Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions*. GASB 68 requires the liability of employers contributing to a defined benefit pension plan to be measured as the portion of the present value of projected benefit payments to be provided through the pension
plan to current active and inactive employees, less the amount of the pension plan’s fiduciary net position.

The $724 million includes $372 million associated with the County’s net pension liability and $352 million attributed to pending Pension Obligation Bond debt. The $372 million net pension amount does not account for liability accounted within Proprietary Funds, as well as within the Sonoma County Water Agency and Community Development funds.

**Fiduciary Funds**

Fiduciary funds are used to report assets held by the County for outside parties and are unavailable to support the government’s own programs. These funds are held in trust for various entities and purposes based on legal authority, Board resolution, or delegated Board authority. Many of these are funds are deposits belonging to other public entities that are held with the County Treasury for investment purposes. Some of these funds are clearing accounts which are typically used for passing through funds to other entities and fund balances are expected to net to zero. Balances should only exist in clearing funds due to the timing of when funds are received and paid out.

Three significant fiduciary funds highlighted in greater detail below are the Tax Loss Reserve Trust, the PARS Trust, and the CMSP Trust. The Tax Loss Reserve Trust Fund (number 82140) also known as Teeter is a Fiduciary fund. First enacted in 1949 (Revenue & Taxation code 4703(a)), the Teeter Plan allows counties to finance property tax receipts for local agencies by borrowing money to advance cash to each taxing jurisdiction in an amount equal to the current year’s delinquent property taxes. In exchange, the counties receive the penalties and interest on the delinquent taxes when collected. The law requires that 1% of the County’s total property assessed value must remain in the trust to handle delinquent payments. In 2010 the Board adopted a policy increasing the minimum balance required from 1% to 2% in order to weather economic impacts to taxing entities derived from housing which may result in high levels of tax payment delinquencies. In November 2015, the Board temporarily adjusted the 2% requirement to 1.25% to address Road infrastructure needs, and provided policy direction annually thereafter to re-establish the 2% reserve from the future collection of penalties. The FY 2019-20 estimated balance of $15.8 million is estimated to comply with the equivalent 1.25% reserve, or $13.6 million, of the FY 2019-20 Assessed Property Tax Roll to be certified to the Board by August of 2019. I recommend utilizing $2,000,000 million of this available balance toward one-time requests.

The PARS (Public Agency Retirement Services) Trust fund (number 82805) is managed by Human Resources/Risk Management and restricted for Other Postemployment Benefits (OPEB) and not available to the County.

The County Medical Services Program (CMSP) Trust was established in January 1983, when California law transferred responsibility for providing health care services to uninsured indigent adults from the State of CA to CA Counties. CMSP provides limited-term health
coverage for uninsured low-income, indigent adults that are not otherwise eligible for other publicly funded health programs. Thirty-five CA counties participate in the pool.

Last year the Auditor-Controller-Treasurer-Tax Collector (ACTTC) conducted an analysis of the Fiduciary funds at the request of the County Administrator. The analysis entailed determining fund purpose and referencing legal authorities and fund sources. County Departments with oversight of the funds were identified and provided additional insight to the analysis.

ACTTC is starting work on implementing a new Governmental Accounting Standards Board (GASB) Statement (No. 84) on fiduciary activities. The implementation of GASB 84 will require ACTTC to expand on the prior analysis and work with responsible departments to ensure appropriate and consistent classification, accounting and financial reporting for fiduciary activities within the County.

**County and Agency Fund balances over $1 Million**

Finally, Attachment I identifies estimated balances or net position values over $1 million. The majority are within the Special Revenue Funds and the Enterprise type of funds. Within this group Human Services, Roads, Health Services, Water Agency, and the Airport division have funds that may serve as departmental operational reserve, if needed. Within the Internal Services funds balances exceeding the $1 million marker include Water Agency Power Resources and Equipment funds, as well as the Human Resources managed self-insurance County Health Plan Economic Uncertainty reserve.

**Attachments:**

A – General Fund
B – Special Revenue Funds
C – Capital Project Funds
D – Debt Service Funds
E – Enterprise Funds
F – Internal Service Funds
G – Special District Funds
H – County and Agency Funds over $1 million