

# OFFICE OF THE COUNTY ADMINISTRATOR

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## COUNTY OF SONOMA

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DATE: June 11, 2019

TO: Members of the Board of Supervisors

FROM: Sheryl Bratton, County Administrator

SUBJECT: FY 2019-20 Budget Hearings Materials & Reports Binder

Enclosed are the FY 2019-20 Recommended Budget public hearings supplemental materials. In addition to the \$1.78 billion described in the FY 2019-20 Recommended Budget book, which maintains core services, the County Administrator's staff has worked with departments to develop balanced budget strategies. These strategies include shifting General Fund resources toward recovery and resiliency, enhanced financial policies, and addressing certain safety net programs.

### **Restoration and Program Change Requests**

The FY 2019-20 Recommended Budget submitted for the Board of Supervisors' approval is structurally balanced. However, there are \$20 million in restoration requests, \$19 million in new funding requests, and \$15.6 million in Board member and community based organization budget requests. The County Administrator's Recommended Budget set forth in the Budget Balancing Tool (Tab 24), includes \$10.4 million of funding towards a number of restoration requests and \$7.6 million of funding for certain new funding requests. This still leaves a funding gap of \$9.6 million in department restoration requests and the elimination of 27.3 positions tied to the unfunded restoration requests. The County Administrator's Recommended Budget includes restoring 41 positions and adding 13 positions.

The County Administrator's Recommended Budget does not make any recommendations on funding for the Board Member requests or the community based organization funding requests. Those requests are described in Tab 10.

### **Addressing Health's Fiscal Cliff**

To address the ongoing fiscal gap with Health Services, I recommend aligning ongoing

Revitalization and Reinvestments funds with the on-going need for Residential Care Facilities and swapping one-time funds to support the County Fund for Housing program which is a one-time grant program. During the April 10, 2019 Budget Workshop, the Board expressed a desire to explore financial solutions, including potential use of Reinvestment and Revitalization (R&R) funds, to address the Department of Health Services proposed elimination of supplemental payments for Residential Care Facilities to help close the department's projected FY 2019-20 fiscal gap.

To solve for the \$3.8 million need to restore Residential Care Facilities supplemental payments, I am proposing the following revisions to the FY 2019-20 R&R Funding Recommendations:

- 1) Program \$2 million in available R&R funds beginning in FY 19-20, previously annually allocated to County Fund for Housing, to Department of Health Services Residential Care Facilities on an ongoing basis.
- 2) Redirect \$650,000 in one-time FY 2018-19 R&R funds to Residential Care Facilities
  - \$250,000 from R&R fund balance in unspent Housing Rehabilitation Loan Program allocation
  - \$400,000 in discretionary CDC Agency fund balance
- 3) Addback \$2 million in one-time FY 2019-20 funding to Community Development Commission County Fund for Housing
  - \$1,201,148 from projected R&R uncommitted fiscal year end fund balance \$798,852 from one-time discretionary General Fund identified in the annual review of fund balance report.

I am also recommending the allocation of \$900,000 in ongoing revenues to partially fund the Department of Health Services request to restore Adult Services staffing for FY 2019-20 (\$300,000 from additional ongoing R&R revenue recognized and \$600,000 in ongoing Graton Tribal mitigation for Socio-Economic). In addition, I am recommending \$631,000 from one-time General Fund to support Adult Services contracts.

In addition to the Health Department restorations described above, my recommendation includes assigning 20% of ongoing revenues for one-time uses in FY 2019-20, in order to save additional financial capacity for absorbing labor increases in FY 2020-21 which will be impacted by the second year of staff equity adjustments.

#### **County General Fund 5-Year Fiscal Outlook (Attachment A)**

The last fiscal outlook update was presented to the Board on December 11, 2018. The forecast has been updated to true-up one-time property tax backfill with latest information and recognizes the County's anticipated labor changes.

The fiscal outlook is focused on the General Fund as the main area of discretionary funds for the County. The recent California State Legislative Analyst Office released a fiscal outlook that maintains a positive outlook statewide. Given the other economic indicators of slowing activity, staff remains cautiously optimistic and plan for slow growth. The California Assembly Budget Committee “FY 2019-20 Blueprint for a Responsible Budget” indicates that even though the economy is strong, a recession is looming and are planning accordingly (<http://budgettrack.blob.core.windows.net/btdocs2019/16.pdf>).

As previously presented to the Board on November 13, 2018, and December 11, 2018, the updated County fiscal forecast assumes improved County General Fund Property Tax revenue growth of 4% for FY 2018-19, and CAO staff projected future year increases at 4%; 3.5%; 3%; and 2.5% through FY 2022-23. Modest growth is based on the following factors: (1) recovery focus on rebuilding which will restore assessed values lost during the fire and new housing units mainly within city limits; (2) consideration for the County’s low housing inventory limiting sales and transfers; (3) delayed growth from fire recovery; (4) focus on developing affordable housing units; and (5) Proposition 13 limits property valuation assessment to a 2% inflation factor, as long as a properties are not sold or improved. Staff from the Assessor’s Office, the Tax Collector’s Office, Permit Sonoma, and the County Administrator’s office meet regularly to review the latest information, and determined that available information supports secured property valuation growth assumptions.

Overall, the five-year General Fund baseline expenses combined with existing level of strategic investments are projected to outpace expected available funds and revenues, which results in an annual gap of \$12.8 million in FY 2020-21; the out years show from \$12.6 million up to \$22 million in need annually.

### **New Since April Workshops**

The County Administrator’s Recommended Budget includes \$6.4 million of ongoing General Fund to be distributed among the highest priority restoration and new program change requests. This ongoing set-aside, along with \$4.1 million in Graton Tribal and Reinvestment and Revitalization funds provides \$10.5 million of ongoing revenues for Board priorities. There is also a total of \$35.4 million in one-time revenues available for one-time restorations or new funding requests. There is a grand total of \$45.9 million in both ongoing and one-time revenues. There are a total of \$54.5 million in departmental, Board Member, and Community-Based Organization requests for funding leaving an overall gap of \$8.5 million.

Additionally, in anticipation of the Sheriff ‘s Office Behavioral Health Housing Unit (BHHU) coming online during FY 2019-20, \$3.1 million of ongoing General Fund has been set aside in FY 2019-20 (half of the department’s estimate for a fully functioning facility) to help the Sheriff’s Office ramp up for staffing, training, and preparation for the new facility. It is recommended to

float the set aside for a year so that the organization is prepared for the more than \$6 million estimated to fully staff and operate the BHHU. There is also \$1 million to program toward the Integrated Justice System modernization once the stakeholders work with the Information Systems Department to approve the scope and implementation plan.

Since the April 9, 10 Budget Workshops, there were additional restoration and program change requests and departments continued to develop their Recommended Budget based on feedback received at the workshops and updated revenue information. Additionally, departments worked with each other to collaborate and adjust preliminary estimates for needed restorations down from \$22.5 million to \$20 million. One example is the fiscal team working together to solve for Veterans Services' layoffs within existing appropriations, another is the true up of Graton Tribal mitigation for law enforcement in the Supplemental Budget Adjustments to align dollars to services. This allowed the General Fund that had been paying for those services to be freed up for other restoration requests.

Staff have also responded to 32 Board Inquiry Requests from the April 9-10 Budget Workshops. This supplemental information is extremely useful for decision making and provides a deeper context when considering restoration and new funding requests (Tab 11).

### **Recommended FY 2019-20 Year-end Fund Balance**

Fund balance created as a result of actual revenue and expenditure deviations from the budget, will be used to achieve and maintain the County's fiscal goals. Any year-end General Fund balance that is not assigned in line with guidance in the adopted budget resolution is recommended for Board approval to be distributed as follows: the first 50% up to \$5 million will be used to increase General Fund Reserves and the next 50% up to \$5 million will be used for pre-payment of unfunded pension liabilities. This pension payment shall be in addition to the 0.5% of payroll discussed above. Should year-end General Fund balance be greater than \$10 million, any additional balance will be made available for one-time needs as determined by the Board of Supervisors during the year.

As noted, enclosed are materials providing supporting documentation to conduct the hearings. These materials include the following:

### **Budget Hearing Binders**

#### ***Budget Hearings Overview and Schedule (Tab 1)***

The County Administrator overview of the FY 2019-20 Budget Hearings, including updated five-year General Fund forecast. The Budget Hearings begin on Tuesday, June 11, at 10:00 a.m. and have been publicly noticed to continue from day-to-day not to exceed fourteen (14) calendar days but may be concluded earlier in accordance with the law. Public comment on the budget is scheduled for June 11, 2019 at 3:00 p.m.

### ***Overview of Revenue and Available Funds (Tabs 2-8)***

The next section of tabs provides an overview of revenues for FY 2019-20 and available funds. This section includes State Budget Impacts, Unfunded Liabilities, General Fund Reserves, Fund Balance Directory (including Teeter fund update), Reinvestment and Revitalization, and Cannabis.

#### State Budget Impacts (Tab 2)

Provides an overview of current State budget impacts.

#### Unfunded Liabilities (Tab 3)

Provides an update on the County's unfunded liabilities.

#### General Fund Reserves (Tab 4)

Provides an overview of the General Fund Reserve balance and policies.

#### Fund Balance Memo & Directory (Tab 5)

The Fund Balance Memo and Directory presents a review of all budgetary funds with restricted uses governed by the Board. The purpose of this item is to review estimated balances and verify the appropriateness of the restrictions for each fund. A total of \$27.5 million has been identified for the Board's consideration during the hearings.

#### Tribal (Tab 6)

Provides an update on Tribal funds, their use and potential uses.

#### Reinvestment & Revitalization Memo & Attachments (Tab 7)

The Board provided policy direction to staff regarding the use of Reinvestment and Revitalization Funds, which are monies returned to the General Fund because of the dissolution of redevelopment agencies. The enclosed materials summarize the programs and projects recommended for FY 2019-20, and provides an update on available funds.

#### Cannabis (Tab 8)

Provides an update on the Cannabis program and current fund balance available.

### ***Budget Deliberations (Tabs 9-11)***

This section of the Budget Hearing Materials discusses department requests for restoration of services, and requests for funding for new programs or services ("program change requests") for FY 2019-20 submitted by departments in Tab 9, and Board Members and Community Based Organizations in Tab 10. In addition, Tab 11 contains all Board Member Inquiry Requests and Responses to those requests.

***Supplementary Information (Tabs 12-18)***

This section of the binder is supplementary information to help the Board and the public deepen their understanding of current issues.

Recovery and Resiliency Fiscal Update (Tab 12)

This is an update on the fiscal status of recovery to include the last three federally declared disasters and an update on the County's Hazard Mitigation Grant Program.

Voter Approved Funding Measures TOT-Measure L, Parks Measure, Open Space Measure (Tab 13)

For reference, this tab includes the latest voter approved measures.

State Schedules & Crosswalk (Tab 14)

Due to the early publication of the Recommended Budget, it did not include the State Schedules as part of the book. These schedules are instead being presented in this Budget Hearing Binder.

Budget Vs. Actuals Report (Tab 15)

This portion of the Budget Hearing Materials presents a variance analysis comparing the Revised Budget to Year-End Actuals by Department and Division for FY 2015-16, FY 2016-17, and FY 2017-18. In addition, the FY 2017-18 Consolidated Audited Financial Statements were presented by the Auditor-Controller-Treasurer-Tax Collector to the Board on June 4, 2019.

Department of Health Services Fiscal Update (Tab 16)

This information is an overview of the Department of Health Services' current fiscal situation and possible bridges to help close gaps.

Safety Net Provider (Tab17)

This information is an update to the Safety Net Provider report that went to the Board on April 2, 2019.

Mandated Services Memo (Tab 18)

This tab is a review of the mandated services project.

***Board Actions (Tabs 19-25)***

This section is all of the action items for the Board's adoption in FY 2019-20 during budget hearings. Items that require action by the Board include adopting the Recommended Annual Capital Projects budget, new Financial Policies, Position Allocations, Supplemental Adjustments, over 12-month vacant position sweeps, restoration and new funding requests, and the budget resolutions.

#### Recommend Annual Capital Projects (Tab 19)

This tab includes the FY 2019-20 recommended capital projects.

#### New Financial Policies (Tab 20)

This tab includes changes to the financial policies for FY 2019-20. The changes highlighted for FY 2019-20 Recommended Budget are 1) Unfunded Pension Liability Pre-Payment Policy, 2) Shared Service Contract Cost Recovery Policy, 3) Fund Balance language clean up, and 4) other technical clean up.

#### Position Allocation Details (Tab 21)

This section of the Budget Hearing Binder provides the position allocation details for each department. It is also used as Exhibit C of the Adopted Budget Resolution which supports all permanent position allocation changes included in the Recommended Budget, Supplemental adjustments, and Budget Hearing Actions.

#### Supplemental Budget Adjustments (Tab 22)

The supplemental adjustments to the Recommended Budget increase total expenditures by \$2.5 million. The purpose of these adjustments is to update the Budget contained in the published Recommended Budget document to accommodate Board approved changes which may have occurred after the recommended budget was balanced. This year, all supplemental changes are consistent with prior Board direction or with the Recommended Budget. As part of the Supplemental Budget Adjustments, it should be noted that the Board has pre-committed \$428,346 of the Board's FY 2019-20 \$5 million in contingencies for the following uses: utilize \$200,000 to fund the Santa Rosa Plain Groundwater Sustainability agency (5/21/2019), with no net change to appropriations, and reduce contingencies by \$228,346 to fund the Sheriff Body Worn Camera cost increases (3/12/2019). This leaves a remaining balance of \$4.6 million in the Board's contingencies. The County Administrator recommends that the Board not spend further contingencies during the Budget Hearings so that there are sufficient funds available should unexpected expenses arise during the fiscal year. As the organization has moved to a structurally balanced budget and departments' budgets are pared back to align with actual expenses, there is much less financial capacity for departments to absorb any unexpected expenses.

### Management to Line Staff Ratio and 12 Month Vacancy Report (Tab 23)

One of the Board adopted Financial Policies is to eliminate positions vacant for longer than 12 months. A total of 82 FTEs have been vacant for more than 12 months. Of that total, 23.8 FTEs are recommended for deletion as a part of the Budget Hearing actions, and are reflected in Exhibit C of the Budget Resolution. 44.9 FTE are in the Department of Health Services and were deleted in the Recommended Budget. The remaining vacancies represent positions for which departments anticipate recruitment, a job class study, or the position is being filled at a different level/capacity. A summary of the analysis sorted by department is enclosed. The management to line-staff ratio show that over the last several years, the County has maintained a ratio of approximately 90/10 – with 90% of the County’s work force being line staff and 10% being management. The FY 2019-20 Recommended Budget maintains this approximate ratio.

### Budget Balancing Tool (Tab 24)

This is a tool for the Board’s deliberations during budget hearings to assist with funding options for restoration and program change requests. The Tool also shows the County Administrator’s recommendation for which department restoration requests and program change requests should be funded. These are all highlighted in green and are above the line. If the Board decides to fund on-going services which are below the line, the County Administrator recommends that the Board decide which services above the line should be eliminated in order to fall within the County’s overall on-going revenues. Alternatively, the Board could decide to fund on-going needs with one-time funds, however the County Administrator does not recommend the use of one-time funds for on-going services. This tab will become Exhibit A of Tab 25 as the adopted Board direction.

### Draft Resolutions Adopting the Budget at the Conclusion of the Public Hearings (Tab 25)

These draft resolutions comply with state law to adopt the FY 2019-20 Budget appropriations. Resolutions are based upon the County Administrator’s Recommended Budget, Supplemental Budget Adjustments, and any further actions directed by the Board during the Budget Hearings. The first resolution references the following:

- Changes to the Recommended Budget directed by the Board (Exhibit A)
- Supplemental Budget Recommendations (Tab 22 of the Budget Hearing Binder)
- List of entities governed by the Board whose budget is being adopted (Exhibit B)
- Position allocation list for FY 2019-20 including time or projected limited positions (Exhibit C)

In addition, the first resolution authorizes the Auditor-Controller-Treasurer-Tax Collector and County Administrator staff to take a number of actions needed to implement the adoption of

the FY 2019-20 Budget, complete actions to close out the current FY 2018-19, and re-budget unused appropriations linked to multi-year encumbered contracts rolling forward into the new-year. The resolution also authorizes temporary cash transfers for working capital purposes, advancing to the Sonoma County Employee Retirement Association FY 2019-20 and FY 2020-21 employer retirement contributions, and implementing the necessary payroll rates for retirement, pension obligation debt, and retiree medical or Other Post-Employment Benefits liability obligations. Added to the Resolution language for 2019-20 budget adoption is the County Administrator's recommendation to distribute FY 2018-19 General Fund year-end balance as follows: the first 50% up to \$5 million to be used to increase General Fund Reserves and the next 50% up to \$5 million to be used for pre-payment of unfunded pension liabilities.

Finally, as in past years, the resolution contains findings for on-going efforts to remove access barriers under the Americans with Disabilities Act, as well as language with respect to the Sonoma County Water Agency and the Warm Springs Dam Project. The Agency levies a tax at a rate necessary to pay the indebtedness to ensure a continuation of the benefits of the Warm Springs Dam/Russian River Project.

<b>GENERAL FUND ONLY FORECAST</b>							
	<b>FY 17-18</b>	<b>FY 18-19</b>	<b>FY 19-20</b>	<b>FY 20-21</b>	<b>FY 21-22</b>	<b>FY 22-23</b>	<b>FY 23-24</b>
	<b>Actuals</b>	<b>Projected</b>	<b>Recommended</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
<b>Taxes</b>	<b>272,423,329</b>	<b>291,119,443</b>	<b>289,462,846</b>	<b>298,652,560</b>	<b>306,866,714</b>	<b>314,016,253</b>	<b>321,343,225</b>
Secured Property Tax	236,710,391	247,895,957	257,874,462	266,900,068	274,907,070	281,779,746	288,824,240
Assumed State Backfill	-	8,759,148	-	-	-	-	-
Redevelopment Increment	(10,546,794)	(12,181,460)	(12,718,515)	(13,163,663)	(13,558,573)	(13,897,538)	(14,244,976)
Residual Property Tax RPTTF	5,455,040	3,515,793	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000
Unsecured Property Tax	5,945,819	6,643,337	5,814,000	5,814,000	5,814,000	5,814,000	5,814,000
Supplemental Property Tax	3,680,767	3,489,990	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Documentary Transfer Tax	6,200,673	5,625,290	5,500,000	5,500,000	5,500,000	5,500,000	5,500,000
Sales Tax	20,687,549	22,009,936	21,050,000	21,492,050	21,921,891	22,360,329	22,807,535
TOT (Not Including Measure L)	4,204,190	5,291,971	5,573,519	5,740,724	5,912,946	6,090,334	6,273,044
Other Taxes	85,693	69,481	69,381	69,381	69,381	69,381	69,381
<b>Non-Tax Revenues</b>	<b>180,716,362</b>	<b>182,045,381</b>	<b>193,683,135</b>	<b>193,142,812</b>	<b>192,444,808</b>	<b>195,296,543</b>	<b>198,198,931</b>
Licenses/Permits/Franchises	15,392,376	20,348,038	19,180,921	15,680,921	12,180,921	12,180,921	12,180,921
State and Federal Funds	75,832,503	78,147,010	80,206,491	82,021,275	83,661,701	85,334,935	87,041,634
Fines/Forfeitures/Penalties	7,806,444	10,077,866	8,623,630	8,623,630	8,623,630	8,623,630	8,623,630
Use of Money/Property	6,015,016	5,444,356	5,295,123	5,308,361	5,321,632	5,334,936	5,348,273
Charges for Services <sup>1</sup>	42,226,973	44,026,987	52,461,618	53,314,120	54,180,474	55,060,907	55,955,646
Miscellaneous Revenues	5,376,161	4,678,585	3,274,980	3,307,730	3,340,807	3,374,215	3,407,957
Other Financing Sources	18,819,149	17,557,660	24,640,372	24,886,775	25,135,643	25,387,000	25,640,870
Special Items	260,390	267,868	-	-	-	-	-
Release of SB 90 Audit Reserve	8,987,350	1,497,011	-	-	-	-	-
<b>Total Sources</b>	<b>453,139,691</b>	<b>473,164,824</b>	<b>483,145,980</b>	<b>491,795,371</b>	<b>499,311,522</b>	<b>509,312,796</b>	<b>519,542,156</b>
<b>Wages &amp; Benefits</b>	<b>317,167,454</b>	<b>327,913,417</b>	<b>350,608,550</b>	<b>374,976,480</b>	<b>386,530,059</b>	<b>396,503,332</b>	<b>398,812,959</b>
Wages and Wage-Adjusted Benefits	208,819,189	327,913,417	223,302,411	240,081,275	247,866,736	254,269,960	259,991,034
Pension	33,845,141	-	39,899,257	43,739,295	45,922,844	48,051,368	56,433,846
Pension Obligation Bond	23,659,518	-	26,173,598	26,990,527	28,077,520	29,068,013	16,871,104
Other Post Employment Benefits	14,480,967	-	16,116,378	16,961,747	17,459,323	17,910,356	18,313,339
Medical Benefits	-	-	29,661,691	31,440,028	31,440,028	31,440,028	31,440,028
Other Capitated Benefits	36,362,640	-	15,455,215	15,763,608	15,763,608	15,763,608	15,763,608
<b>Non-Salary &amp; Benefit Expenses</b>	<b>135,972,236</b>	<b>134,973,676</b>	<b>132,537,431</b>	<b>129,417,796</b>	<b>130,380,705</b>	<b>134,994,231</b>	<b>139,763,196</b>
Services & Supplies <sup>2</sup>	105,005,708	126,309,518	135,287,564	133,741,191	134,148,426	138,172,879	142,318,066
Other Charges	26,649,141	24,686,376	25,648,587	26,161,558	26,684,789	27,218,485	27,762,855
Fixed Assets	6,801,808	3,494,268	8,129,210	8,129,210	8,129,210	8,129,210	8,129,210
Other Financing Uses	85,202,597	80,899,360	76,842,361	75,737,830	76,963,792	78,224,625	79,521,543
<i>Roads (ongoing adjt. w/growth)</i>	<i>16,532,143</i>	<i>16,267,087</i>	<i>16,125,602</i>	<i>16,320,440</i>	<i>16,519,174</i>	<i>16,721,884</i>	<i>16,928,647</i>
<i>In Home Support Services</i>	<i>11,104,626</i>	<i>12,192,274</i>	<i>12,679,965</i>	<i>13,187,164</i>	<i>13,714,650</i>	<i>14,263,236</i>	<i>14,833,766</i>
<i>Capital Projects/Facilities Maintenance</i>	<i>6,300,000</i>	<i>8,256,179</i>	<i>8,256,179</i>	<i>8,256,179</i>	<i>8,256,179</i>	<i>8,256,179</i>	<i>5,500,000</i>
<i>Other Transfers</i>	<i>59,096,371</i>	<i>44,183,820</i>	<i>39,780,615</i>	<i>37,974,048</i>	<i>38,473,788</i>	<i>38,983,326</i>	<i>39,502,951</i>
Reimbursements <sup>2</sup>	(87,687,018)	(100,418,846)	(118,370,290)	(119,351,993)	(120,545,513)	(121,750,968)	(122,968,477)
Contingencies	-	3,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
<b>Total Uses</b>	<b>453,139,691</b>	<b>462,887,093</b>	<b>483,145,981</b>	<b>504,394,276</b>	<b>516,910,763</b>	<b>531,497,563</b>	<b>538,576,154</b>
<b>Total Surplus (Deficit)</b>	<b>0</b>	<b>10,277,732</b>	<b>(0)</b>	<b>(12,598,905)</b>	<b>(17,599,241)</b>	<b>(22,184,768)</b>	<b>(19,033,999)</b>