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DATE: May 31, 2024
TO: Members of the Board of Supervisors and Board of Directors
FROM: M. Christina Rivera, County Executive
SUBJECT: FY 2024-25 Budget Overview

Introduction

The Recommended Budget prior to final budget hearings actions includes \$2.46 billion in total expenditures and 4,462 full time equivalent positions. It represents continuation of existing programs and implementing new items that the Board of Supervisors has previously approved within identified available resources. The Recommended budget does show a 10% increase based largely around budgeting for major capital projects, including the construction of a new Public Health Lab/Morgue and rehabilitation of facilities at Los Guilicos and potential purchases by Ag + Open Space that are anticipated to begin in Fiscal Year (FY) 2024-25, as well as program expansion in the Department of Health Services relying on state and federal grant funding, which were approved in FY 2023-24.

The Recommended Budget Book is available at:

<https://sonomacounty.ca.gov/Main%20County%20Site/Administrative%20Support%20%26%20Fiscal%20Services/CAO/Documents/Public%20Reports/Budget%20Reports/2024-2025/FY-2024-25-Recommended-Budget.pdf>

The enclosed Budget Hearing Binder materials provide additional information complementing the FY 2024-25 Recommended Budget. These materials include a review of County funds to identify sources that can be used during budget hearings, which have not yet been programmed in the Recommended Budget; departments and Board members funding requests; County Executive's recommendations for use of available funds; Board Budget Inquiries submitted in April along with staff responses; County's Financial Policies revisions; County's Proposition 4 appropriations limit adoption; and supplemental budget adjustments to the FY 2024-25 Recommended Budget. The materials also include the budget resolutions that will codify the Board's close of hearing actions and adoption of the final revised Adopted FY 2024-25 budget.

What follows is a brief review of some of the key issues facing the County as we look toward the upcoming FY 2024-25 budget and its viability going in the following FY 2025-26

Discussion of Key Issues

State Budget Implications

On May 10th the Governor released the May Revised Budget, which includes significant cuts to state programs in order to address significant, multi-year revenue shortfalls. At the time of writing, the state legislature is still working with the Governor on the final package that must be adopted by June 15, 2024. While the ultimate implications for Sonoma County are not known, the May Revised Budget includes cuts to funding expected to impact the County's ability to deliver homeless programs, expansion of behavioral health services, and funding for broadband improvements intended to decrease the digital divide in our community. The County relies on state support in all of these areas, and thus key County programs and priorities are at risk. The Board's [Financial Policies](#) state that the County will not backfill state and federal funding reductions *without specific Board direction*.

The Departments of Health Services and Human Services are particularly dependent on state funding. While these departments maintain balances in a number of their funds based on state revenues (see Tab 10 for fund balances), these balances may be needed to support programs should funding be cut. Intergovernmental revenue, primarily state and federal, totals \$1.03 billion, or 42% of total County funding sources.

In-Home Support Services Agreements

The In-Home Support Services Public Authority is currently engaged in negotiations with SEIU 2015, which represents In-Home Support Services (IHSS) workers. The more than 6,000 IHSS providers in the County are paid through a mix of state, federal, and local funding. Because state and federal participation is capped, all labor increases beyond the state cap will primarily require County discretionary funding. Thus, new agreements could put significant pressure on the County's overall fiscal sustainability to maintain other programs.

County Center Replacement

Planning continues to replace the County's aging facilities. The Board has agreed to prioritize construction on the current County campus, which will allow for consolidation of a significant portion of the workforce while also freeing inefficiently used space for other purposes. The Public Infrastructure Department will be returning in July with an update and next steps related to the construction.

Homeless Costs

Each year in the Budget Hearing materials, we provide information on costs associated with homeless response and prevention for the prior complete fiscal year. The information provided below reflects homelessness costs incurred in FY 2022-23.

Due to the nature of homelessness prevention and response, the County does not have a financial account coding structure exclusively designed to track homelessness related expenses, as delivery of service interactions are not all identified as providing services to housed versus unhoused clients. Likewise, individuals may interact with a County department for a number of reasons, and their housing status may or may not be the leading cause for that interaction. Therefore, determining costs associated with addressing homelessness relies on considering expenditures as well as available case data. Ultimately, the reported costs are an approximation of actual expenses incurred due to these realities.

In total, in FY 2022-23 Countywide spending on homelessness prevention and response totaled almost \$97.8 million, a reduction of \$30 million (23.5%) due to the sunseting of large pandemic related state and federal grant programs in FY 2021-22. The largest share of these expenditures come from the Community Development Commission (CDC), which include funds that flow through the Continuum of Care (CoC) but are approved by the County's Board of Supervisors/Board of Commissioners. Note that the Homeless section housed in CDC transitioned to the Department of Health Services from FY 2022-23 into FY 2023-2024. The full impact of this change will be reflected in the cost data presented in next year's materials.

The enclosed table includes costs associated both with prevention, such as rental assistance programs/housing vouchers, as well as response, such as cleaning up homeless encampments in parks. Even the delineation between prevention and response can be nuanced. That said, the majority of costs in the Community Development Commission, Health Services, and Human Services departments can better be characterized as preventative costs, while response costs are attributable to the other departments.

| Department/Program | FY21-22 APPROXIMATED ACTUAL | FY22-23 APPROXIMATED ACTUAL |
|---|-----------------------------------|-----------------------------------|
| Community Development Commission Programs | | |
| Affordable Housing ⁱ | \$43,811,447 | \$14,484,974 |
| Ending Homelessness | \$13,891,245 | \$12,945,705 |
| Housing Authority | \$45,922,030 | \$48,283,287 |
| Community Development Commission Total | \$103,624,722 | \$75,713,966 |
| Health Services Programs | | |
| Accessing Coordinated Care and Empowering Self Sufficiency (ACCESS) ⁱⁱ | \$6,738,393 | \$3,998,925 |
| Behavioral Health Acute Forensic | \$6,512,901 | \$6,789,527 |
| Behavioral Health Youth & Family | \$1,262,483 | \$1,092,402 |
| Health Service Total | \$14,513,777 | \$11,880,854 |

| Department/Program | FY21-22 APPROXIMATED ACTUAL | FY22-23 APPROXIMATED ACTUAL |
|--|-----------------------------------|-----------------------------------|
| Human Services Programs | | |
| Adult & Aging | \$652,478 | \$723,997 |
| Employment & Training | \$3,134,517 | \$3,183,500 |
| Family Youth & Children | \$1,925,869 | \$2,103,015 |
| Human Services Total | \$5,712,864 | \$6,010,512 |
| District Attorney Total | | |
| | \$236,683 | \$237,939 |
| Regional Parks Total ⁱⁱⁱ | | |
| | \$379,889 | \$839,825 |
| Probation Total | | |
| | \$1,500,878 | \$1,562,959 |
| Public Infrastructure Total | | |
| | \$684,790 | \$486,553 |
| Sheriff- Law Enforcement Total ^{iv} | | |
| | \$411,157 | \$467,957 |
| Sonoma Water Total ^v | | |
| | \$800,000 | \$620,326 |
| Total Homelessness Prevention and Response Costs: | | |
| | \$127,864,760 | \$97,820,891 |

Description of Notable Changes – FY 2020-21 to FY 2021-22

ⁱ Emergency Rental Assistance Program funds were expended, and the program ended in FY 2021-22, resulting in less funding available for Affordable Housing.

ⁱⁱ COVID Emergency Response Grant funds were expended, and the program ended in FY 2021-22, resulting in less funding available for ACCESS programs.

ⁱⁱⁱ Regional Parks re-examined which expenditures to include in this analysis, which is an improvement in the methodology.

^{iv} Sheriff's Office does not include detention costs to house individuals self-reported as homeless.

^v Sonoma Water represents work performed in specific geographical areas. In FY 2022-23, fewer Supervised Adult Cleanup Crews were utilized than in the prior year.

Fiscal Outlook

The state economy has experienced a sustained year-over-year revenue growth following the end of the Great Recession. Even a string of natural disasters and the COVID 19 pandemic resulted in only limited reductions in our bay area economy and on County revenues. However, we are now seeing signs of slowing both locally and at the state level that suggest this period is ending.

High interest rates have driven down property sales, leading to a slowing in property tax growth, while the significant drop (35% between FY 2021-22 and FY 2022-23) in documentary transfer tax (charged on property ownership transfers) suggests that assessed property values, which form the basis for property tax growth, will increase only slowly in the next few years.

Sales tax has also slowed markedly and is expected to be near flat based on estimates from HdL, the County's sales tax consultants.

Combined with the expected reductions in state revenues and uncertainty inherent in election years, caution is strongly advised. We should assume that existing County discretionary resources will soon be needed to maintain services. Expanding services now is likely to lead to cuts in the medium term. *The time is now for conservative fiscal decisions so we can position ourselves to be able to pivot and adapt to limit county service disruptions.*

Layout of the Binder

Budget Hearings Overview (Tab 1)

This tab includes this Overview Memo and the Budget Hearing Schedule. The Budget Hearings begin on Tuesday, June 11, at 8:30 a.m. and have been publicly noticed to continue from day-to-day for up to fourteen days. Public comment on the Budget has been scheduled for each day.

Available Sources Memo (Tab 2)

The Available Sources memo summarizes the sources of discretionary revenue available to fund requests represented on the Budget Hearing Deliberation Tool.

Budget Hearing Deliberation Tool (Tab 3)

The Budget Hearing Deliberation Tool illustrates the requests for department-funded program changes as well as requests for discretionary funding. It also includes Board Budget Requests. Details on the organization of the Budget Hearing Deliberation Tool are included in the cover memo for that tab. The cover memo also includes County Executive funding recommendations.

General Fund Reserve Memo (Tab 4)

This tab provides an overview memo of the General Fund Reserve balance and policies.

Add Backs and Program Changes (Tab 5)

This tab provides Add Back and Program Change Requests description and justifications submitted by departments.

Board Member Budget Requests (Tab 6)

This tab includes funding requests received from the Board of Supervisors and, where relevant and information is available, a staff response for the Board's consideration.

Board Information Requests (Tab 7)

This tab includes responses to the Board Information Requests (BIRs) received in conjunction with the Spring Budget Workshops in April.

Supplemental Budget Adjustments (Tab 8)

This tab presents Supplemental Budget Adjustments, which are administrative or are tied to Board approved actions that have occurred between the submission of the Recommended Budget by departments to the County Executive on February 28, 2024, and the June Budget Hearings.

Summary of Position Changes (Tab 9)

This section provides a summary of position changes from the FY 2023-24 Adopted Budget through the present, including changes made during FY 2023-24, changes in the FY 2024-25 Recommended Budget and changes in Supplemental Adjustments.

Fund Balance Memo and Directory (Tab 10)

This tab provides an overview memo of the Fund Balance Directory, which includes all the budgetary funds uses governed by the Board.

Financial Policy Updates (Tab 11)

This tab contains the County's Financial Policies, with any changes displayed in track changes. Enclosed version does not include any recommended changes.

Appropriations Limits (Proposition 4) (Tab 12)

This tab provides the details for the calculations for the FY 2024-25 appropriations limits for the County and for various special districts and agencies governed by the Board of Supervisors, and the associated Resolutions. Each year the County Board must approve an appropriations limit for the year, which dictates the total amount of tax revenue and certain related revenue streams that can be appropriated during a fiscal year.

Tribal Mitigation Funds (Tab 13)

This tab contains a summary of the three tribal mitigation funds and recommendations for certain fund balance use as well as FY 2024-25 ongoing appropriations related to the revenue received under the new Memorandum of Understanding with the Federated Indians of Graton Rancheria.

Board Resolutions (Tab 14)

This tab contains the two resolutions and related exhibits with which the Board codifies their approval in order to officially adopt the FY 2024-25 Budget. The Concurrent Resolution contains the actions necessary for the Auditor-Controller-Treasurer-Tax-Collector and the County Executive to implement the Adopted Budget. The Concurrent Resolution includes four exhibits as follows:

Exhibit A – The Final Budget Adjustment Tool, approved by straw vote in advance of the formal adoption.

Exhibit B – A list of the Governmental Entities governed by the Board.

Exhibit C – Supplemental Budget Adjustments.

Exhibit D – Contains a Countywide summary of positions by department and the Position Allocation List for FY 2023-24.

This tab also includes the Resolution for the Sonoma Valley County Sanitation District.

Overview of Budget Hearings/Budget Schedule

The Budget Hearings are slated to take place over three days. They will begin on Tuesday, June 11 at 8:30 a.m. The first day will include presentations on the budget and available sources.

Time permitting, the Board may begin deliberations on Tuesday afternoon. If deliberations are completed on Tuesday, Budget Hearings will be continued until Friday, June 14, otherwise deliberations will continue on Wednesday.

On Wednesday, June 12, the Board will continue deliberations, if needed. It is anticipated that deliberations will conclude on this day with a straw vote on the adopted budget.

There will be no Budget Hearings on Thursday, June 13, in order to enable staff to finalize the budget resolution and other materials in anticipation of adoption.

On Friday, June 14, it is anticipated that the Board will hear an overview of changes reflecting direction given during the hearings and will adopt the budget.

Should the Board require additional time for deliberations, hearings may be continued to the week of June 17.

A detailed schedule is below.



FY 2024-25 Budget Hearing Schedule

- **Day 1 – Tuesday, June 11 at 8:30 am**
 - 8:35 AM: Public Comment on the Budget
 - Budget Overview Presentation
 - Available Sources (Tab 2), CAO Recommendations (Tab 3), Budget Deliberation Tool Overview (Tab 3, Attachment 2)
 - Straw Vote on Available Sources (ACTION)
 - Lunch
 - Review and Straw Vote on Department-Funded Program Change Requests (Tab 3, Attachment 1) (ACTION)
 - Begin Deliberations
- **Day 2 (if necessary) – Wednesday, June 12 at 9:00 am**
 - 9:05 AM: Public Comment on the Budget
 - Continue Deliberations
 - Lunch
 - Continue Deliberations
 - Direction to Staff (Straw Vote)
- **Day 3 – Friday, June 14 at 9:00 am**
 - 9:05 AM: Public Comment on the Budget
 - Recap of Budget Deliberation Tool and Other Actions
 - Adoption of the FY 2024-25 Budget, Financial Policies, and Prop 4 Appropriations Limits (Tab 12)

