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DATE: June 15, 2021

TO: Members of the Board of Supervisors

FROM: Sheryl Bratton, County Administrator

SUBJECT: Fund Balances Review Directory

This memo presents a review of all budgetary funds 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 review also documents use restrictions for each fund. The combined County and Agency fund list is estimated to have a FY 2021-22 year-end total balance of approximately \$1.07 billion.

One of the objectives of the review of funds is to assess whether funds can be released for Board priorities. This year, the County Administrator's Office recommends the Board consider releasing \$12.1 million of various one-time fund balances which are included in the Budget Balancing Tool for the Board's deliberations of departments' add-back requests, or for funding Board or Community Budget requests or other board priorities, such as strategic plan implementation. It is important to emphasize that these are one-time funds and should be used for one-time needs consistent with the Board's financial policy of adopting a structurally balanced budget. Appropriate one-time uses include such things as the increase of reserves, investments in capital projects including disaster repairs, affordable housing funding, paying down unfunded liabilities, and setting aside funding to support County strategic priorities. The \$12 million of fund balances that may be considered include the following:

1. \$6.0 million from General Fund anticipated year end fund balance
2. \$4.1 million from the Reinvestment and Revitalization Fund
3. \$2.0 million from the Refuse Franchise Fees Fund

Finally, more available fund balance could be released at the Board's discretion which are reserved under the County Health Plan Funds. This fund has an approximate \$27 million fund balance, with roughly \$13.5 million estimated to have been derived from General Fund finance payroll contributions. The County Administrator is not recommending releasing these funds at this 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.

Budgetary funds and specific General Fund designations 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 2021-22 year-end Governmental balances by fund type.

Fund Type	Description	Fiscal Year-End 2021-22 Estimated Balance*
General	Used by the County for main operations primarily financed with tax revenue as well as fees and charges for services, e.g. Sheriff.	\$319,868,526
Special Revenue	Tracks use of funds for services primarily delivered on behalf of state/federal agencies, e.g. Health and Human Services or Road programs.	\$251,280,307

Fund Type	Description	Fiscal Year-End 2021-22 Estimated Balance*
Debt Service	Ensures debt service obligations are met, e.g. Open Space Tax Bonds issued by the County.	\$8,991,221
Capital Projects	Represents non-operating resources for Parks and General government facilities (not including Roads) financed with one-time funds and outside funding.	\$0
Special Districts	Accounts for entities' funds established for a specific public service, e.g. Water Agency, Community Development Commission.	\$273,366,198
Total	GOVERNMENTAL FUNDS	\$853,506,252

*Does not include un-spensible amounts

General Fund Balance

The following provides further details on the balances within the General Fund type. These balances consists of the following categories (see Attachment A for details):

- \$18.5 million representing the FY 2021-22 unrestricted balance – Attachment A, page 1
- \$13.3 million for Equipment Replacement – Attachment A, page 2.
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.
- \$9.7 million for Reinvestment and Revitalization - Attachment A, page 3.
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 \$5.2 million has been earmarked for Springs HUB, Highway 12 parking mitigation, TMDL MOU, the Guerneville Homeless Shelter, CDC's technology upgrade, and lower Russian River Area Specific Plan. After removing the earmarked funds there is a balance of \$4.5 million in uncommitted one-time funds.
- \$31.5 million for Tribal Impacts - Attachment A, page 4.
Funds include \$25.9 million in the Graton Mitigation Fund, consisting of \$7.5 million held in pre-operating and operational reserves, \$18.4 million in balance for various mitigation purposes. The Lytton Mitigation Fund includes \$4.3 million for mitigations related to the Lytton development north of the Town of Windsor. Funds also include \$1.3 million in the Dry Creek Mitigation Fund, which includes \$921,166 reserved for the Geyserville Specific Plan and follow up projects.

The remaining fund balance in the mitigation funds is primarily associated with specific mitigation purposes. Recommendations will come forward on these specific items, and staff do not recommend releasing fund balance for general purposes at this time.

- \$2.3 million Restricted by the Type of Source- Attachment A, page 5.
Net of the \$3.96 million of un-spendable Tobacco Deallocation balances associated with a loan receivable, the total includes sources intended for a specific use, such as \$651,000 in Tobacco Deallocation, \$198,000 for Sonoma County Energy Watch for energy incentives, \$641,000 District Formation, \$246,000 for Mark West Spring projects, and \$460,000 for Small Water Systems.
- \$179.9 million for Specific Uses - Attachment A, page 6.
Funds set aside for distinct purposes such as PG&E 2017 Fire Settlement \$91.2 million to address direct impacts of the 2017 wildfires and resiliency investments, COVID-19 Disaster Fund \$68.7 million that is related to the FEMA claim, Fire Services Fund \$7 million to support fire service enhancement efforts, State Mandates audit reserve kept to address potential repayments in the event of an adverse audit, and Refuse Franchise Fees \$2.9 million for financing part of the County's Pavement Preservation program and covering landfill environmental requirements.
- \$64.6 million General Fund Reserve - Attachment A, page 7.
Total balance includes \$52.8 million to maintain the minimum 1 month of General Fund revenues reserve policy, \$8.4 million identified as the 2017 FEMA Audit Reserve, and \$3.4 million for Resiliency local match projects.

Special Revenue Balance - Attachment B

The following provides further details on the balances within the Special Revenue Funds. The total estimate for FY 2021-22 is \$251.3 million. Below are highlights of the major components in Attachment B:

- Department of Health Services includes \$82.7 million of various reserves including mental health services and 1991 Realignment.
- Transportation and Public Works includes \$45.8 million for road, bridges, and public, education or government access programming.
- Human Services includes \$28.4 million of various reserves, mainly consisting of 1991 Realignment, 2011 Realignment, Title VI-E Waiver, and Wraparound Services savings for reinvestment into child welfare service programs.
- Probation has \$24.8 million toward programs for adult and juvenile offenders and community corrections.
- Auditor-Controller-Treasurer-Tax Collector monitors \$22.1 million consisting of Measure F sales tax proceeds to finance the Open Space District's operations and capital acquisition.
- Clerk-Recorder-Assessor has \$13.4 million for modernization of the county's system of recorded documents and support of recording operations.

- Sheriff's Office has \$7.4 million of reserves for specific projects and operations support.
- District Attorney's Office includes \$3.6 million for consumer protection, fraud, auto theft, family justice, and other programs.
- The Community Investment Fund includes an estimated balance of \$2 million. Revenue source in this fund represents Transient Occupancy Tax (TOT) revenue dedicated to the program. In [April 2019](#) the Board approved a multi-year plan that relies on the drawdown of prior years' fund balance for programming through FY 2022-23. Of this amount \$1.92 million is in the Community Investment Fund reserved for future community services program costs in the areas of Fire, Parks, Recovery, and District grants, and \$91,410 in the Community Investment Measure L fund which is designated for future infrastructure and program costs for Veteran's buildings, Roads, Fire Services, Code Compliance and Parking Enforcement per the measure and multi-year plan. In addition, outside of the \$2 million estimate, there is a committed fund balance of \$1 million for Economic Uncertainty.

Special Districts - Attachment C

Represents the group of separate legal entities' funds established for a specific public service, e.g. Water Agency, Community Development Commission which are governed by the Board of Directors, as well as special districts governed by the Board of Supervisors to include lighting districts, permanent road districts, and small water districts. The total FY 2021-22 ending estimated financial positions is \$273.4 million mainly associated with the Community Development Commission with \$120.5 million where the County Fund for Housing represents \$27.9 million; and the Sonoma Water with \$131.7 million covering infrastructure projects, flood zones, sanitation districts, debt bond reporting, as well as Spring Lake and Warm Spring Dam operations.

Capital Projects Funds - Attachment D

The county annually updates the 5- year Capital Project Plan to provide the Board and the public a view of the major facility and infrastructure projects. The Capital Project Funds in this report tracks per project fund balances for General Government and Regional Parks projects, which are carried forward year over given the multi-year project execution. The Transportation and Public Works and Sonoma Water projects are tracked within those agencies' special revenue or special districts funding structure.

Debt Service Funds - Attachment E

Debt Service Funds are used to account for the accumulations of resources for, and the payment of, long-term debt. These funds' Fund Balance are restricted for long-term debt payments and therefore not available for general budgetary purposes. The restricted fund balance of almost \$9 million is include for reference purposes only.

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.

The following is a summary of the estimated FY 2021-22 year-end Proprietary Net Position (assets minus liabilities) by fund type, excluding Pension Obligations.

Fund Type	Proprietary Funds	Fiscal Year-End 2021-22 Estimate
Enterprise Attachment F	Goods or services provided in exchange for a Board established fee or charge. E.g. Airport, Spud Point Marina.	\$88,621,121
Internal Services Attachment G	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.	\$137,401,021
Subtotal	PROPRIETARY FUNDS WITHOUT PENSION	\$226,022,142

Pension and Other Post-Employment Benefits (OPEB) Liabilities

Fund Type	Proprietary Funds	Fiscal Year-End FY 2021-22 Actuary Valuation
Subtotal	PROPRIETARY FUNDS WITHOUT PENSION	\$230,258,941
Internal Services (ISF) Retirement & Pension Obligation Bonds	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.	(\$429,523,920)
ISF OPEB Liabilities	OPEB Plan net liabilities, calculations in compliance with Governmental Accounting Standards Board Statement No. 75	(\$183,737,269)
Proprietary Funds Pension and OPEB Liabilities	Pension (\$2.88)M and OPEB (\$2.64)M	(\$5,521,087)
Grand Total	PROPRIETARY FUNDS WITH PENSION	(\$388,523,335)

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 \$429.52 million includes \$181.64 million associated with the County's net pension liability and \$247.88 million attributed to pending Pension Obligation Bond debt. The \$181.64 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 Commission funds.

The estimated OPEB (Other Postemployment Benefits) related funds combined Net Position is driven by financial reporting requirements established by GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 requires the liability of the OPEB plan to be measured in a manner consistent with a pension plan.

The County's net OPEB liability is \$183.74 million.

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 2021-22 estimated balance of \$15.0 million would comply with the equivalent 1.25% reserve, or \$14.4 million, of the estimated FY 2021-22 Assessed Property Tax Roll to be certified by the Board in August of 2021, but is \$8.1 million below the permanent target of 2%, or \$23.1

million. With penalties suspended for COVID-19-related losses, the revenues for this fund may be highly impacted, while more than \$3.3 million in expenditures are programmed for FY 2021-22. As such, this fund is in danger of approaching the 1.25% minimum, and it is not recommended that additional Teeter funds be used in FY 2021-22.

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.

The Auditor-Controller-Treasurer-Tax Collector (ACTTC) will continue to implement Governmental Accounting Standards Board (GASB) Statement (No. 84) on fiduciary activities, which was postponed one year due to the COVID-19 emergency, and is effective for Fiscal Year 2021-22. The implementation of GASB 84 requires ACTTC to work with responsible departments to ensure appropriate and consistent classification, accounting and financial reporting for fiduciary activities within the County.

Attachments:

- A – General Fund
- B – Special Revenue Funds
- C – Special District Funds
- D – Capital Project Funds
- E – Debt Service Funds
- F – Enterprise Funds
- G – Internal Service Funds