575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

COUNTY OF SONOMA

SUMMARY REPORT

Agenda Date: 2/11/2025

To: Board of Supervisors
Department or Agency Name(s): County Administrators Office
Staff Name and Phone Number: Peter Bruland, 565-3086
Vote Requirement: Informational Only
Supervisorial District(s): Countywide

Title:
FY 2024-25 Fiscal Update

Recommended Action:
Receive an update on the County's fiscal position and upcoming challenges

Executive Summary:
Each year the County Administrator's Office provides the Board of Supervisors with updated General Fund projections and an overview of major challenges impacting budget development. Consistent with the approved Financial Policies <https://sonomacounty.ca.gov/administrative-support-and-fiscal-services/county-administrators-office/budget-and-operations/financial-policies>, The Board of Supervisors annually adopts a structurally balanced budget that does not rely on one-time year-end savings to finance ongoing operational costs. Budget development is a months-long multi-department collaboration process that begins in the fall of each fiscal year and culminates with Budget Hearings and the adoption of the budget, which is scheduled to occur in June of 2025.

A key part of the process is a review of available resources for budgeting. Based on the current fiscal forecast, the Board's discretionary source, the General Fund is projected to close the current fiscal year 2024-25 with a fund balance of $8.0 million. Given the significant level of uncertainty around federal and, to a lesser extent, state budgets as well as the potential need to mitigate impacts of federal policies, staff will recommend and urge the Board that year end General Fund balance not be programmed during the June 2025 budget hearings.

For the next fiscal year 2025-26, staff are currently projecting a nominal under one million surplus. While this suggests that the general fund budget may be balanced without overall reductions, it is important to note that individual departments, in additional to federal funding policy changes, may also experience issues due either to cost pressure that hits departments uniquely or due to slow or negative growth in non-general-purpose revenues. Slowing revenue trends are expected to lead to deficits beginning if fiscal year 2026-27.

This item also includes a discussion of state and federal budget pictures. Together, state and federal sources make up approximately 40% of the County's budget. While the General Fund is expected to have sufficient revenue growth to cover General Fund financed cost increases in fiscal year 2025-26, statewide sales tax growth is stalling. This is important because it impacts the funding level for 1991 and 2011 Realignment that supports safety net programs and for Proposition 172 Public Safety funding. Together these sources account

for $236 million in the fiscal year 2024-25 budget, and form significant portions of the funding for the departments of Health Services, Human Services, Sheriff's Office, District Attorney's Office, and Probation Department, with smaller amounts flowing to other departments. These sources are not likely to keep pace with rising costs, which will put pressure on these departments' budgets.

Federal funding sources which impact many state county allocations cannot be easily projected at this time. While there is much discussion of potential federal pauses and/or cuts, the County is still assessing vulnerabilities while remaining in a wait-and-see status.

Discussion:
Each year the Board of Supervisors adopts a balanced budget, in line with the state constitution. Over the course of the year, staff monitor revenues and expenditures and develop forecasts for current and future fiscal years. Generally, a forecast is presented to the board in the fall, however this year the forecast was moved into the winter of 2026 for two primary reasons: first, to ensure that the presentation would be available to the full board that will be making budget decisions in June, including newly-elected District 1 Supervisor Hermosillo; and second, to give better clarity into potential state and federal impacts from the Governor's Budget in January and the new administration in Washington.

This update is divided into to primary sections. The General Fund projections discuss the County's general-purpose revenue. While constituting only about one-third of the County budget, the General Fund is the area over which the Board of Supervisors has the greatest discretionary authority. The second section examines some of the primary state and federal revenue streams and speaks to risks in these areas.

General Fund Projections

The five-year General Fund fiscal projections (Attachment 1) offer an illustration of how staff expect general fund sources and uses to develop over the current fiscal year, and for each fiscal year from 2025-26 through 2029-30. Table 1 shows a high-level summary of these projections. The Final surplus or deficit for a given year is based on the single-year projections assuming no change to policies impacting revenues or expenditures. For example, if the projected $0.6 million surplus in fiscal year 2025-26 were utilized for ongoing costs, the projected deficits in ensuing fiscal years would grow. Similarly, if the $7.2 million projected deficit in fiscal year 2026-27 is addressed in full, the projected deficits in future years would be reduced. Each year staff will present the Board with a balanced budget, including any expenditure reductions necessary for balancing.

Table 1: Projected General Fund Sources (revenues) and Uses (expenditures) in Millions of Dollars

Fiscal Year	FY 24-25	FY 25-26	FY 26-27	FY 27-28	FY 28-29	FY 29-30
Revenues/Sources	$701.9	$684.6	$699.4	$716.8	$736.5	$756.9
Exp./Uses	$693.9	$684.0	$706.6	$730.6	$752.4	$771.0
Total Surplus (Deficit)	$8.0	$0.6	($7.2)	($13.9)	($15.9)	($14.1)

*Sources minus uses may not equal total due to rounding

Current projections show a $8.0 million General Fund surplus for FY 2024-25. The largest factor in the surplus is anticipated savings of $5.9 million in salaries and benefits compared to budget. This number is preliminary and is subject to change. It represents approximately 1.3% additional salary savings compared to budget, and is down significantly from the $12.1 million seen in FY 2023-24 and the $34.8 million in FY 2022-23. This reduction is the product of a reduction in vacancy rates, particularly in the Sheriff's Office, as well as budgeting that more accurately reflects actual expected rates of savings due to turnover. The remainder of the anticipated surplus is caused by higher than expected property tax growth of $4.8 million based on the final tax roll (anticipated as part of the 2024-25 final Assessment Roll Close Board action), offset by increased contributions of $1.9 million (40% of unanticipated growth) to the County Center Modernization Fund, in line with existing Board approved Financial Policies. These positive factors are partially offset by sales tax and Proposition 172 Public Safety Revenue which are coming in lower than anticipated.

While the County is expecting to end the year with a modest balance in the General Fund, staff at this time are recommending the yet to materialize balance remain unprogrammed into FY 2025-26 and not be considered for use during the budget hearings due to concerns over state and federal funding which may require discretionary funds to respond to federal policy shifts to mitigate impacts on County of Sonoma programs and services.

For fiscal year 2025-26, the projections are essentially balanced with a nominal $0.6 million surplus projected. Total sources and uses are projected to decrease due to a reduction of one-time sources programmed in FY 2024-25. While there may be future one-time expenditures based on available fund balance in the fiscal year 2025-26 budget, these would be balanced by one-time sources and would thus not impact the long-term fiscal picture. This relatively strong position for the General Fund comes due to prudent management in prior years by the Board. Chief among them is the Board approved Financial Policy not to use one-time funding to support ongoing programs and to not backfill state/federal funding reductions with County discretionary funds except when considered and approved by Board of Supervisors.

Beyond fiscal year 2025-26, the forecast shows deficits beginning at $7.2 million in FY 2026-27 and peaking at $15.9 million if FY 2028-29. The primary factor is slow anticipated revenue growth. When interest rates rose sharply following the COVID-19 pandemic, the volume of property sales declined significantly as seen in the recorded Documentary Transfer Tax. While a backlog of new assessments has allowed property tax growth to remain higher than anticipated to this point, it is inevitable that the decrease in sales will lead to lower property tax growth figures.

Absent property transfers or improvements, property tax growth is capped at 2% (it can be lower or even negative if the State Board of Equalization (BOE) California Consumer Price Index (CCPI) as determined by the California Department of Industrial Relations is lower than 2%). The forecast does not anticipate this happening, but it does see growth slowing to 3% in FY 2026-27 before gradually recovering to a more normal 4%. Other revenues, including sales tax, are also expected to moderate. The County is experiencing a negative impact of the move to increased online shopping. Under California law, when a purchase ships from within the state, sales tax accrues to the jurisdiction from which the item shipped rather than to the jurisdiction in which it will be used. Expense increases are also expected to be moderate, but still in excess of revenue growth.

Several factors dictate caution in interpreting these numbers:

- As noted above, current labor agreements with all bargaining units are set to expire in the first half of 2026. Absent new agreements, the forecast assumes 3% growth in line with Sonoma County Employee Retirement Association actuarial assumptions.
- The forecast does not assume any spending on new programs, or backfill of programs outside the

General Fund that might see reductions. This means that should the Board decide to mitigate impacts of Federal policies or to continue services that are being cut, other reductions would need to be identified to offset increased General Fund demand.

- Similarly, this does not anticipate items that might impact General Fund revenues such as formation of Enhanced Infrastructure Financing Districts (EIFDs) in Santa Rosa or elsewhere. Any revenue growth accruing to an EIFD would reduce funding into the General Fund by the same level, and a reduction in fee recovery would have an equivalent impact on the General Fund.
- Revenue projections constitute a "middle of the road" scenario in terms of economic performance. Property tax is anticipated to grow between 3% and 4% in each of the coming years, while sales tax and other tax sources are anticipated to see moderate growth. Should the economy enter a recession, sales tax and other taxes could see a rapid reduction. Property tax would remain more stable, however recovery from a downturn could take much longer in that revenue stream.

State and Federal Funding

The largest share of Sonoma County's Revenue comes from state and federal sources, making up approximately 40% of the non-transfer revenues in the fiscal year 2024-25 Adopted budget. Of this total, state revenue accounts for $552 million, while federal revenue totals $309 million. State and federal revenues come from a myriad of programs and impact numerous departments. They range from funding that supports federal programs administered by the County, such as rental assistance distributed by the Community Development Commission, to FEMA funding to reimburse for eligible disaster costs to one-time grant funding for specific projects. Because much of the funding is tied to reimbursements for work performed or specific grants, forecasting is more a matter of estimating future work volume than amounts of payments. While there will be lags, in general less revenue in these areas should be aligned with a reduction of workload. Certain other funding sources, particularly Proposition 172 and state realignment funding, are driven by state revenues and thus are prone to fluctuation not related to work volume or costs.

Realignment and Proposition 172

Proposition 172 public safety funding is based on a half-cent statewide sales tax. It gets distributed roughly proportional to the share of sales tax that is generated in a County. It was passed in 1993 to help backfill agencies that had lost funding to the Educational Realignment Augmentation Fund, which the legislature had previously passed to divert additional property tax revenue to schools. In Sonoma County, 92% of all Proposition 172 funding goes to the Sheriff' Office and District Attorney's Office as set by board policy, while 8% goes to the Fire Service Fund to fund agreements with local fire districts. Because of this it is included in the General Fund forecast above. It is important to note, however that Sonoma County revenues in FY 2025-26 are anticipated to drop by 0.6% from the FY 2024-25 Adopted Budget, which may lead to department-specific shortfalls.

Realignment is a term used to broadly describe services formerly provided by the state that have been transferred (realigned) to the Counties, with identified funding sources (a share of sales tax and vehicle license fees) rather than guaranteed cost coverage. Generally the term is used to describe the 1991 realignment of various Health and Human Services functions, and the 2011 Public Safety Realignment, which included portions for Behavioral Health and Human Services as well as funding for Criminal Justice departments. In the FY 2024-25 Adopted Budget, 1991 Realignment accounts for $82.9 million, while 2011 Realignment totals

$86.4 million. These numbers reflect solid post-COVID growth. Between fiscal year 2018-19 (the last pre-COVID year) and fiscal year 2023-24, actual revenues increased by 22% for 1991 realignment and 38% for 2011 realignment, for annual averages of 4.0% and 6.6%, respectively. With statewide sales tax stalling out, however, these trends are not expected to continue at this level. In the Governor's Budget for fiscal year 2025 -26, revenues for realignment are slated to increase by about 2.3% for 1991 realignment and 2.8% for 2011 realignment. While overall impacts will differ in different program areas depending on the state's allocation methodology. Human Services growth will largely be taken up by additional costs related to the new In Home Support Services contract agreement approved in the fall of 2024.

HdL, who perform sales tax analysis for the County and many other jurisdictions in California, provide an overall estimated growth rate for 2011 Realignment funding, shown in Table 2 below.

Table 2: Estimated Growth in Statewide 2011 Realignment Funding

Fiscal Year	2025-26	2026-27	2027-28	2028-29	2029-30
Rate of Growth	2.8%	3.2%	3.3%	3.4%	3.4%

These numbers show a slowing of growth to a rate similar to overall expected growth in General Fund revenues, suggesting a similar trajectory for the health of Realignment-funded programs.

Federal Funding

As noted above, the county is budgeted to receive $308.6 million in federal funding in the current fiscal year. The largest share, approximately $200 million, of this total is associated with safety net programs administered by the county, including public assistance programs, rental assistance, Medi-Cal and other programs. About $36 million is associated with disaster funding and one-time grants, and $45 million is associated with capital project funding (including roads and bridges), with various other allocations including one-time grants making up the remainder.

The new federal administration has clearly signaled a change in priorities and a desire to reduce federal funding. The initial weeks of the new administration have been eventful, with a short-lived freeze in disbursements was stayed by federal courts. While the order was withdrawn, have ruled that examine all programs to ensure that they match with the administration's priorities. A January 31, 2025, summary from the California County Administrators-County Executives (CACE) discussing freeze and state action related to it is attached.

Given the level of uncertainty on if and when cuts or funding freezes may occur, the County remains in a cautious wait-and-see approach. Departments that have funding are continuing to work with their state and federal partners (much federal funding is passed through the state to the County) to process invoices, verify obligation of funds, and adjust as needed. Larger changes to programs may come as part of the state and federal budget processes. The federal government is currently operating under a continuing resolution that expires in March 2025. Budget discussions to fund the government for the rest of the fiscal year may include additional changes, as could further discussions in the fall.

Agenda Date: 2/11/2025

Strategic Plan:
N/A

Racial Equity:

Was this item identified as an opportunity to apply the Racial Equity Toolkit?
No

Prior Board Actions:
June 14, 2024 | Concurrent Resolution Adopting the FY 2024-25 Budget

FISCAL SUMMARY

Expenditures	**FY23-24 Adopted**	**FY24-25 Projected**	**FY25-26 Projected**
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
General Fund Contingencies			
Total Sources			

Narrative Explanation of Fiscal Impacts:
There is no fiscal impact associated with this item.

Staffing Impacts:			
Position Title (Payroll Classification)	**Monthly Salary Range (A-I Step)**	**Additions (Number)**	**Deletions (Number)**

Narrative Explanation of Staffing Impacts (If Required):
N/A

Attachments:
Attachment 1: General Fund Forecast
Attachment 2: CACE Letter
Attachment 3: Presentation

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Related Items "On File" with the Clerk of the Board:
N/A