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DATE: September 8, 2020

TO: Members of the Board of Supervisors

FROM: Sheryl Bratton, County Administrator

SUBJECT: General Fund Reserves

Sonoma County entered Fiscal Year 2020-21 with \$43,153,495 in General Fund Reserves, exclusive of the \$4,450,000 FEMA Audit Reserve, discussed below. An additional \$1.1 million was approved to go to the reserve in the June supplemental adjustments in order to maintain the Reserve level above the 1-month (8.3%) minimum set by the Board-adopted [County Financial Policies](#). No use of reserves is recommended in Fiscal Year 2020-21, and it is recommended that the \$1.1 million programmed in June remain in the budget. The CAO also recommends that the FEMA Audit Reserve (discussed below) be increased by \$3.97 million to reflect all current claims and that \$8.5 million of revenue from the PG&E 2017 Wildfire Settlement be used to replenish Reserves for the amount that was programmed as a result of the 2017 Wildfires.

Current General Fund Reserve Policies

County Financial Policies set a target for General Fund Reserves of two months operating expenses (16.7% of budget). During the Fiscal Year 2018-19 budget hearings, the Board adopted the establishment of a General Fund Reserve minimum funding level (one month's general fund revenues or 8.3%) and a Replenishment plan. The policy states:

- *The Board will maintain a minimum level of unassigned General Fund Reserve balance equal to 1/12 (8.3%) or 1 month of annual General Fund revenues.*
- *Replenishing General Fund Reserve- Anytime the Board authorizes drawdown of Reserves, staff will present a re-payment schedule which shall include the amount of state/federal reimbursements expected to be received.*

This policy was put in place to ensure the County would have capacity to deal with future emergencies and to maintain the County's credit rating.

For purposes of the FY 2020-21 Budget, the targeted reserve amount of two months' general fund revenues equal \$87.9 million, and one month is \$43.5 million.

The Board also adopted a Federal Emergency Management Agency (FEMA) Audit Reserve specific to the 2017 wildfires to ensure the County has adequate resources set aside to pay for any reimbursements disallowed by the Office of Inspector General (OIG). The OIG generally conducts its audits several years after claims are filed, up to three years after the claim is closed out. The purpose of the FY 2018-19 approved financial policy associated with Reserves was to establish an initial FEMA Audit Reserve and to define the procedures for increasing or decreasing the reserve by describing that an assignment within the county's General Fund Reserve would be recorded rather than creating a separate FEMA Audit Reserve. The current FEMA Audit Reserve is \$4.45 million, which accounts only for claims from the 2017 Wildfires. The County Administrator recommends that the FEMA Audit Reserve be increased by \$3.97 million to \$8.42 million in order to account for 20% of outstanding claims from all currently open disasters. Attachment A includes a breakdown of FEMA funding received by fund.

Use of FEMA Audit Reserve Funds

The FEMA Audit Reserve fund balance assignment will be used to pay for any claims that are disallowed as a result of an OIG audit. The FY 2020-21 Recommended Budget includes \$4.45 million set aside for the FEMA Audit Reserve. The ACTTC, CAO, and County Counsel staff will periodically assess the reasonableness of the reserve balance and recommend an increase or decrease as necessary. Reserves will be calculated and maintained on a FEMA project by project basis based on FEMA funding that has been received. A total of \$4.45 million audit reserve has been assigned within the General Fund reserve, which represents 20% of FEMA claim costs incurred by the County Governmental funds from the 2017 Wildfires. In order to account for claims related to all current disasters, the County Administrator recommends increasing this reserve to \$8.42 million using available one-time sources.

History and Projections

Prior to the 2017 wildfires, Sonoma County had been steadily increasing reserves toward the target of two-months of operating costs. In 2017-18, on the eve of the fires, reserves stood at \$53.1 million, or 11.3% of operating expenditures. In the FY 2018-19 adopted budget the Board designated \$8.5 million of the reserve balance for recovery and resiliency projects, with a focus on grant matches, as well as designating a \$3.9 million FEMA reserve. This left reserves at \$40.7 million, or 8.7% of operating revenues. In FY 2019-20, the FEMA reserve was increased to \$4.45 million to remain at the 20% of FEMA claims costs target, and the Board added \$2.5 million of FY 2018-19 year end fund balance to bring the reserves to \$43.2 million. In the FY 2020-21 recommended budget this amount constituted less than the one-month minimum, and

so \$1.1 million was programmed in June Supplemental adjustments to increase the balance to \$44.3 million. Based on current revised projections, this amount constitutes about 8.5% of annual appropriations for FY 2020-21. Under current growth projections, it is estimated that, if not increased, the \$44.3 million reserves will constitute 8.4% for FY 2021-22, and in FY 2022-23 would need to be increased again to meet the 8.3% minimum if it is not increased at this time.

Recommendations

As discussed above, the County Administrator recommends that the following actions be taken with regard to reserves:

- 1) Program \$8.5 million in PG&E settlement funds to restore General Fund Reserves for the \$8.5 million that was set aside in FY 2018-19 for recovery and resiliency projects following the 2017 wildfires. Not including the FEMA Audit Reserve, the recommended restoration will bring the reserves up to \$52.7 million, which represents 10% of the County's General Fund operating revenues.
- 2) Increase the FEMA Audit Reserve by \$3.97 million in order to reflect 20% of all FEMA claims received for outstanding disasters as of 8/25/2020. See enclosed Attachment A - Summary of FEMA Revenue Received by Fiscal Year and Additional Reserve Calculation



Attachment A - Summary of FEMA Revenues Received by Fiscal Year and Reserve Calculation

County Governmental Funds - Included in General Fund Reserve Calculation

| Fund Number | Fund Description | FY 2017-18 | FY 2018-19 | FY 2019-20 | Total | 20% reserve |
|-------------|---|----------------------|---------------------|----------------------|----------------------|---------------------|
| 10005 | General Fund | \$ 83,833 | \$ 285,752 | \$ 139,103 | \$ 508,688 | \$ 101,738 |
| 10135 | DR - October Fires 17-18 | \$ 14,733,754 | \$ 2,689,953 | \$ 159,277 | \$ 17,582,984 | \$ 3,516,597 |
| 10145 | DR-4308 February 2017 Storms | \$ 52,526 | \$ - | \$ - | \$ 52,526 | \$ 10,505 |
| 10147 | General Disaster Fund-2019 Flood | \$ - | \$ - | \$ 1,050,610 | \$ 1,050,610 | \$ 210,122 |
| 10149 | 2019 Kincade Fire Dis. Fund | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10150 | 2020 Covid-19 Disaster Fund | \$ - | \$ - | \$ 9,483,003 | \$ 9,483,003 | \$ 1,896,601 |
| 11051 | Roads Fund | \$ 865,806 | \$ 564,154 | \$ 5,792,041 | \$ 7,222,001 | \$ 1,444,400 |
| 11555 | DCSS-Child Support Enforcement | \$ 42,197 | \$ 14,902 | \$ - | \$ 57,099 | \$ 11,420 |
| 11605 | Department of Health Services | \$ 3,805,913 | \$ 1,875,187 | \$ 380,488 | \$ 6,061,588 | \$ 1,212,318 |
| 11710 | Public Hlth Fee Stabilization | \$ 245,087 | \$ - | \$ - | \$ 245,087 | \$ 49,017 |
| 11715 | First 5 Sonoma County (I) | \$ 25,593 | \$ - | \$ - | \$ 25,593 | \$ 5,119 |
| 11805 | Driving Under The Influence | \$ 64,840 | \$ - | \$ - | \$ 64,840 | \$ 12,968 |
| | Subtotal - County Governmental Funds | \$ 19,919,550 | \$ 5,429,948 | \$ 17,004,522 | \$ 42,354,020 | \$ 8,470,804 |

Current 2017 Wildfires FEMA Audit Allowance \$ (4,500,000)
Additional Allowance Recommended \$ 3,970,804

Special District and proprietary Funds- not included in reserve calculation

| Fund Number | Fund Description | FY 2017-18 | FY 2018-19 | FY 2019-20 | Total |
|-------------|---|--------------|------------|--------------|--------------|
| 13605 | Open Space District | \$ 100,607 | \$ 65,336 | \$ 131,075 | \$ 297,018 |
| 14120 | Zone 5A Lower Russian River | \$ 126,293 | \$ - | \$ - | \$ 126,293 |
| 15101 | CSA #41 LD - Countywide | \$ - | \$ - | \$ 461,620 | \$ 461,620 |
| 24129 | Mark West Creek Ph1 | \$ - | \$ - | \$ 46,260 | \$ 46,260 |
| 41401 | Transit - Article 4 | \$ - | \$ - | \$ 4,833 | \$ 4,833 |
| 43201 | Russian River CSD | \$ - | \$ - | \$ 89,995 | \$ 89,995 |
| 43301 | Sonoma Valley CSD | \$ - | \$ - | \$ 66,992 | \$ 66,992 |
| 44205 | Water Transmission System | \$ 49,882 | \$ 78,799 | \$ 311,495 | \$ 440,176 |
| 45505 | CSA #41 Water - Jenner | \$ 37,344 | \$ - | \$ - | \$ 37,344 |
| 46120 | Flood Elevation | \$ 1,358,380 | \$ 261,504 | \$ 2,043,019 | \$ 3,662,903 |
| | Subtotal - Special District and Proprietary Funds | \$ 1,672,506 | \$ 405,639 | \$ 3,155,289 | \$ 5,233,434 |

Grand Total \$ 21,592,056 \$ 5,835,586 \$ 20,159,811 \$ 47,587,454