



Legislation Details (With Text)

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On agenda: 11/19/2019 **Final action:**
Title: General Fund Fiscal Projections & FY 2020-21 Budget Plan
Sponsors: County Administrator
Indexes:
Attachments: 1. Board Request for Information Form, 2. Summary Report, 3. General Fund Five-Year Fiscal Projection, 4. Tribal Funds Five-Year Fiscal Projections, 5. Community Based Organization Submission Form, 6. Board Financial Policies, 7. PowerPoint

Date	Ver.	Action By	Action	Result
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To: Board of Supervisors/Board of Directors
Department or Agency Name(s): County Administrator's Office
Staff Name and Phone Number: Christina Rivera 707-565-2431
Vote Requirement: Majority
Supervisory District(s): All

Title:
General Fund Fiscal Projections & FY 2020-21 Budget Plan

Recommended Action:

- A) Review Five Year General Fund Fiscal Projections
- B) Accept FY 2020-21 Budget Development Plan and Direct Staff to Implement
- C) Direct staff to maintain the FY 2020-21 Reserve at the current 8.4% level

Executive Summary:

Our Board of Supervisors annually adopts a balanced budget. Year over year the county previously relied on "projected" year-end General Fund savings or year-end unspent sources to finance the new year's recommended budget. Given a structurally balanced budget is a better fiscal planning practice, in FY 2017-18 the Board approved a financial policy to eliminate year-end balance reliance by FY 2020-21. To this end, "projected" one-time year end savings will not be programmed to finance the new year baseline budget.

The County's long term fiscal health is supported by providing updated fiscal projections to the Board and the public. The enclosed General Fund projections and upcoming FY 2020-21 budget development plan are submitted for the Board's consideration. At this time, impacts of the October 2019 Kincade Fire are not included. Impacts and damage assessment associated with the Kincade Fire will be completed in the coming months.

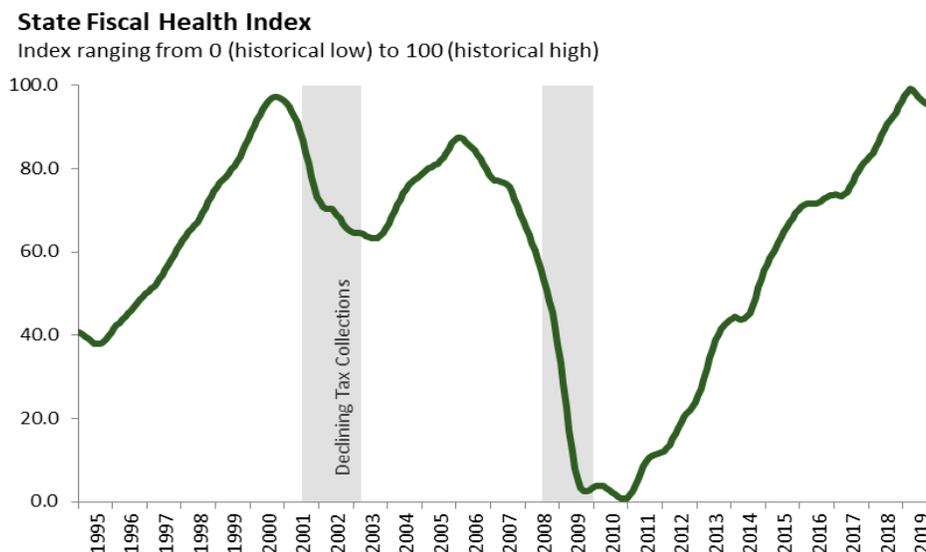
Overall, assuming moderate annual revenue growth, preliminary projections show an estimated \$10.8 General Fund deficit in FY 2020-21. The estimated General Fund deficit will be addressed in the Recommended FY

2020-21 Budget through the departments’ refinement of expected revenues and/or adjustments to expenses.

Discussion:

Local, State and National Economic Trends

Knowing when the recession and/or the state’s next fiscal slowdown will happen is at best difficult to project and at worst impossible to assert it will occur. Many economic factors outside the Board of Supervisors’ control influence local discretionary revenues as well as state and federal funding support. On November 4, 2019, the Legislative Analyst’s Office (LAO), which is the California Legislature’s Nonpartisan Fiscal and Policy Advisor, concluded, “Multiple signs suggest a slowdown could be on the horizon, but recent actions by the Federal Reserve could help improve economic conditions. If, despite Federal Reserve actions, conditions do not improve in the coming months the risk of a decline in state revenues would be high.” The LAO tracks multiple economic data points to predict whether shifting economic conditions are likely to lead to growth or declines in state revenues. The analysis results in a Statewide Fiscal Health Index, which tracks the state’s historical revenues. The September 2019 index graph (see below) remarks that the index has declined for the most recent six straight months.



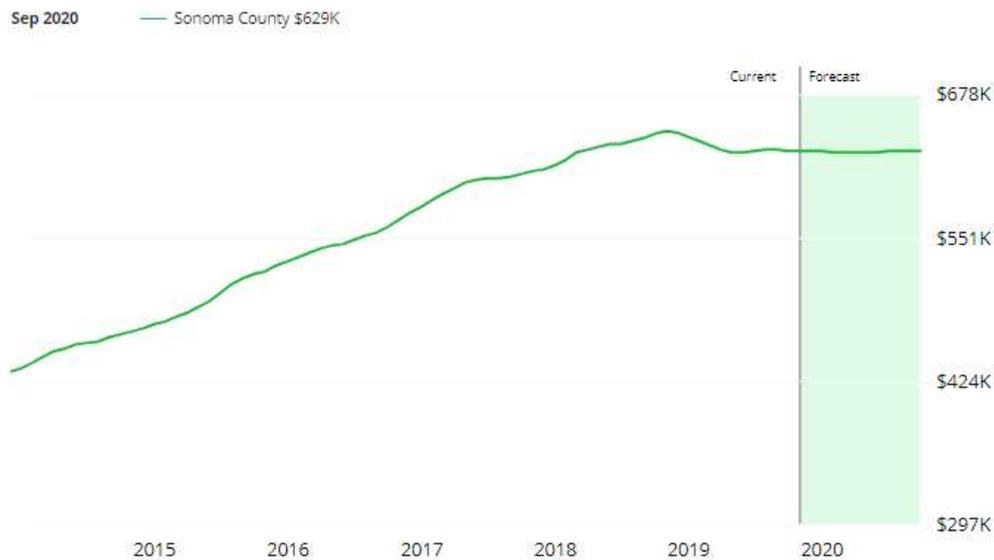
Source: <<https://lao.ca.gov/LAOEconTax/Article/Detail/404>>

The state’s sales and use tax receipts for the first three months of the fiscal year were \$77 million below forecast.

Consistent with state trends, national economic indicators have been showing weakness in recent months. For example, the Institute for Supply Management (ISM®), a not-for-profit professional supply management organization, October 2019 report showed [manufacturing activity](https://www.instituteforsupplymanagement.org/ismreport/mfgrob.cfm?SSO=1) <<https://www.instituteforsupplymanagement.org/ismreport/mfgrob.cfm?SSO=1>> has dropped to levels often seen before a recession. In addition, according to the October 2019 U.S. Commerce Department report, in September 2019 retail sales fell 0.3% which was the first declined tracked in seven months, raising concerns that a slowdown in the American manufacturing sector could be starting to bleed into the consumer side of the economy. Notwithstanding some of these statistics, Chris Thornberg of Beacon Economics recently opined that data clearly supporting a significant economic reset has not materialized.

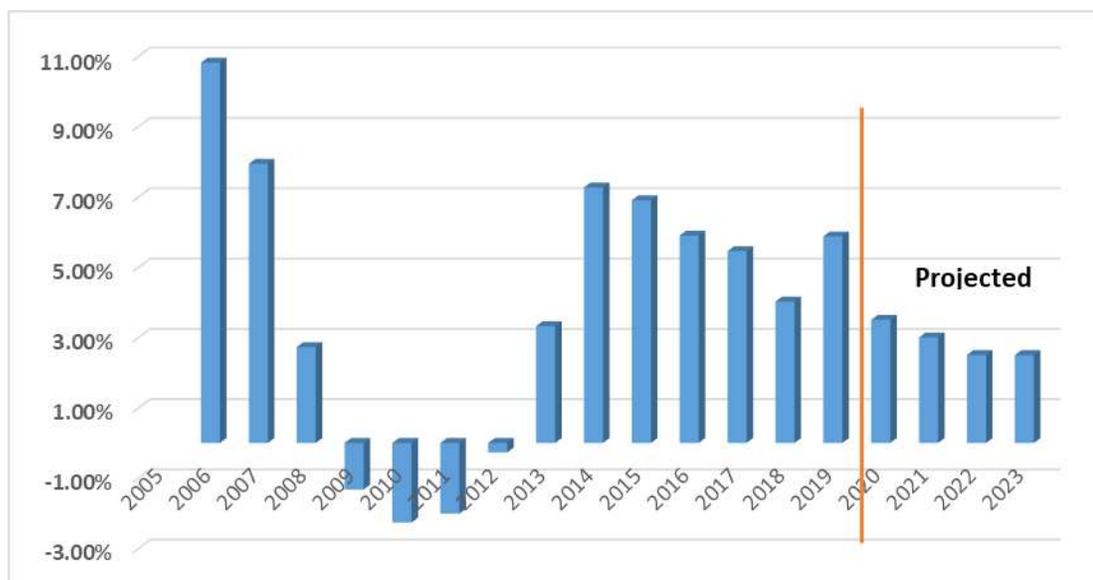
The County's General Fund major discretionary revenues are Property and Sales Tax revenues. Thus, projections of slow national and state economic growth lead staff to assume moderate annual increases for sales tax derived General fund local and/or state revenue projections such as Public Safety Proposition 172.

Regarding Property Tax revenue, staff's projections are based on the 2% year over year Board of Equalization certified CPI factor, ownership transfers, property improvements such expansion and remodels, and new construction. According to Zillow, an online real estate database company, Sonoma County's median home price in September 2019 was \$629,400; which based on their records, represents a decline of minus 2.3% over the past year. Zillow predicts flat median home price for 2020 - see following chart.



Source: <https://www.zillow.com/sonoma-county-ca/home-values/>

Our General Fund Property tax projections for FY 2020-21 and beyond are influenced by the expected 2017 Wildfire reconstruction completion, which results in restoration and not in an augmentation of the tax base. In addition, based on the county's new construction experience and overall year-over-year actual growth (see chart below) beyond the 2% maximum CPI Proposition 13 allowed valuation adjustment, staff includes a modest net valuation increase, which is estimated to result in overall Assessed Valuation expansion of 3.5% in FY 2020-21 and declining to 2.5% in FY 2023-24.



Source: [item #26, 08/20/2019 <https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=4088658&GUID=828AE305-F307-46E3-B73C-54ECA37BD4C6&Options=&Search=>](https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=4088658&GUID=828AE305-F307-46E3-B73C-54ECA37BD4C6&Options=&Search=>) presentation to the Board

At the national level, trade and interest rate policy decisions have resulted in unpredictable investment market behavior, and at the state and county level low unemployment rate has allowed for strong wages and stable consumer activity. As of September 2019, the County’s unemployment rate was 2.2 percent compared with an unadjusted unemployment rate of 3.5 percent for California and 3.3 percent for the nation during the same period.

At a minimum, staff recommends that the Board’s fiscal decisions are based on the recognition that even without a recession, overall economic growth indicators have slowed down. As a result, the trends support cautiously optimistic revenue growth, which consequently limits the Board’s ability to grow or expand programs and services and/or fully addressed unfunded liabilities.

General Fund Five-Year Fiscal Projections

The Five-Year General Fund Fiscal Projections (Attachment A) offer an illustration of where we expect the General Fund revenues and expenditures to come in for each fiscal year between FY 2019-20 and FY 2023-24 under current policies. The model projects that the General Fund will end FY 2019-20 with a surplus of \$2.6 million, driven by higher than budgeted property tax revenue, but that increased expenditures, primarily in the form of wages and benefits costs will result in a \$10.8 million deficit in FY 2020-21, with deficits continuing through FY 2023-24.

It is important to note that this model does not assume any corrective measures that will be taken, but rather forecasts current policies, including staffing levels and revenue streams, into the future. State law requires the adoption of a balanced budget, and Board policy dictates that a structurally balanced budget be adopted. Thus these projections should not be taken to indicate that the County expects to adopt unbalanced budgets in the future, but rather that, under existing conditions, policy changes that either reduce costs or increase revenues will be required such that the budget can be balanced. Staff will prepare the FY 2020-21 recommended budget based on projected available funds, which will include approximately \$10 million less in expenditures than the forecast of current spending indicates. Further discussion of the projections follows.

As Table 1 shows, under current policies revenues are expected to grow by \$3.4 million in FY 2020-21 (from \$506.4 million in FY 2019-20 to \$509.8 million in FY 2020-21). This includes a 4.3% (\$11.4 million) increase in secured property taxes. This estimate is aided by the expectation that about one-third of the value lost due to the 2017 wildfires will be restored based on houses being rebuilt. As of October 31, 2019, 1,062 houses have been rebuilt, with another 2,471 properties in the permitting stage or under construction. Many of these are expected to be completed during the coming year. Impacts from the 2019 Kincade Fire have not yet been incorporated into this model.

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

	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
Projected Total So	\$506.4	\$509.8	\$521.9	\$532.7	\$543.6
Projected Total Us	\$503.9	\$520.6	\$536.7	\$552.3	\$557.7
Total Surplus (defi	\$2.6	(\$10.8)	(\$14.8)	(\$19.6)	(\$14.1)

While revenues are projected to continue increasing, expenditures are expected to increase faster than revenues. Wages and employee benefits expenses make up more than 70% of general fund expenditure. In FY 2020-21, total wages and benefits in the General Fund are projected to increase by 6.8%, or \$24.3 million.

The largest factor of the increase is an estimated 4.2% increase in wages due to 3% cost of living adjustments and equity adjustments averaging about 1.2% to bring Sonoma County compensation in line with that of other comparable counties. During the June 2019 budget hearings, the Board agreed to set aside \$1.6 million of on-going funding to help pay towards the second year of equity adjustments. This funding should cover a majority of the second year equity costs.

The projections also include expected staffing costs at the Main Adult Detention Center Behavioral Health Unit, which is anticipated to begin staffing within the next fiscal year. The expected staffing costs represent 1.8% of the overall 6.8% growth in total wages and benefits.

In addition, 1.8% of the 6.8% growth in wages and benefits is due to increased pension costs. Pension contribution rates for Fiscal Year 2021-22 are based on the Sonoma County Employees’ Retirement Association annual actuarial valuation as of December 31, 2018, and are increasing due to the following primary cost drivers: 1) lowering of the assumed discount earnings rate from 7.25% to 7.00%; 2) actual investment returns in calendar year 2018 lower than the assumed discount rate; and 3) changes to demographic assumptions, such as longer assumed lifespans for retirees.

For 2021-22 and beyond, wages and benefits costs are expected to increase by about 2.5% annually (or about \$14 million annually in the next 3 fiscal years) as salary equity adjustments will be completed and future cost of living adjustments during the 4-year agreements are tied to the consumer price index and increases to property tax revenue.

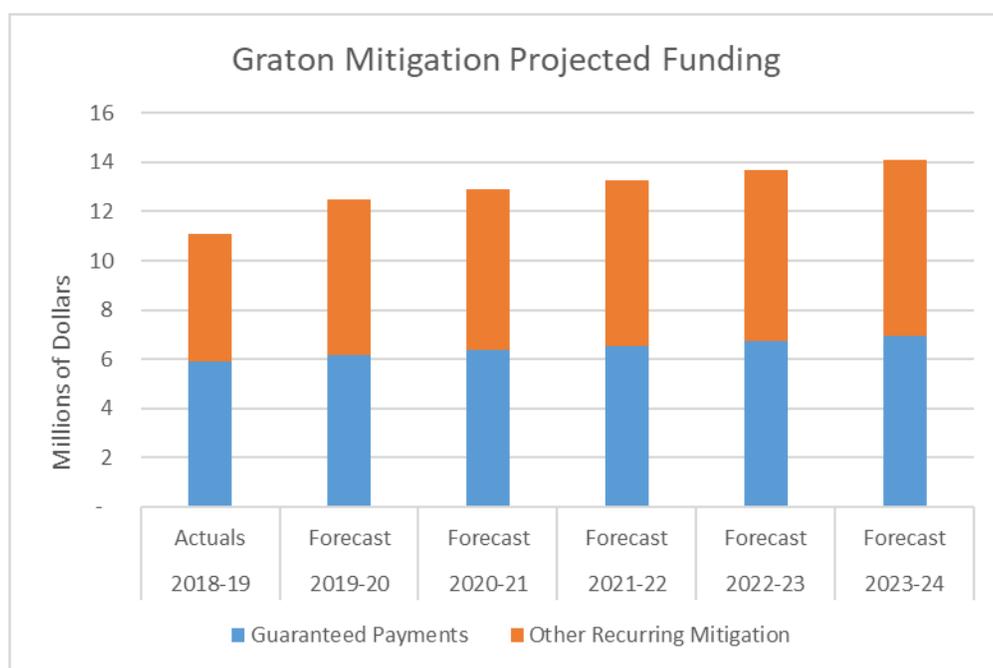
This forecast only projects revenues and expenditures for the General Fund. In February 2020, staff will return to the Board with an updated forecast that includes Health and Human Services costs and revenues. This 5-year forecast does not address any shortfalls that may be found in those areas.

Vacancies

As of November 8, 2019, there are currently 394 vacancies countywide. Of the total, 164 of the positions have been vacant for almost 12 months, which includes 47 full-time equivalent positions (FTE) within General Fund budgets not under recruitment. Staff will be working closely with departments to review each of the 47 vacancies to better understand the reason for the vacancies and whether any of the vacant positions should be deleted.

Graton Tribal Funds Five-Year Fiscal Projection

During the June 2019 budget hearings, the Board programmed ongoing guaranteed funding to add-back services in the law and justice departments and Health Services. Staff committed to review the tribal revenues identified as “Other Recurring Mitigation”, which are not guaranteed and are dependent upon revenues at the casino, to determine whether the “Other Recurring Mitigation” revenues can be relied upon as ongoing revenues. Expected total revenues are reflected in the chart following.



The agreement with the Graton Tribe includes guaranteed funding for Law, Justice, and Tribal Relations, which total \$3.7 million in 2019-20 and increase annually with the consumer price index. The FY 2019-20 budget programs \$3.5 million of this total for ongoing uses, including funding positions in the Sheriff’s Office, District Attorney’s Office (including Family Justice Center), Public Defender’s Office, Probation Department, as well as support for REDCOM and support for tribal relations costs, including administering the contract. In addition, \$2.1 million of accumulated fund balance is programmed for use on various needs, including capital projects at the Main Adult Detention Facility. The positions funded within the Justice Partners have some of the highest rates of equity increases. The \$200,000 of unallocated fund balance will be used to ensure that increases in costs for these positions can continue to be funded in 2020-21 and beyond.

When there is sufficient revenue at the Casino, the county receives additional funding for “Other Recurring Mitigation”. This non-guaranteed funding includes a portion for in-lieu transient occupancy tax, over which the Board has full discretion, however most of the funding is dedicated to specific mitigation purposes including local road mitigation, pass through funding to the Sonoma County Transit Agency for Highway 101 work, and mitigation funding for groundwater, traffic, affordable housing, and air quality. These last four

buckets require consultation with the Graton Tribe to program, per the agreement. Prior to FY 2019-20, there has not been sufficient revenue at the Casino to fill these buckets, and no ongoing funding has been programmed out of the non-secured payments, although the Board utilized \$3.6 million of available fund balance for local road work and for other need, including funding for an infrastructure sinking fund. Beginning in the second half of 2018-19, the County has been receiving full payments for these additional mitigation items. Based on the past trends in Casino revenue growth, this funding is expected to continue.

Staff recommend that ongoing funding for “Other Recurring Mitigation” be available for the Board to fund restoration of existing services or new program requests as appropriate during the June 2020 budget hearings.

The table below shows the breakdown of expected ongoing revenue by assigned purpose as well as remaining fund balance following uses programmed in the FY 2019-20 Budget.

	2019-20 Fund Balance	2019-20 Forecast Ongoing Revenues
TOT In-Lieu Fees/Interest	\$1,134,931	\$1,043,407
Local Roads Maintenance	\$1,871,351	\$602,434
Highway 101 SCTA pass through	\$1,859,929	\$2,409,735
Groundwater Mitigation	\$255,740	\$331,339
Traffic Mitigation	\$641,676	\$831,359
Affordable Housing	\$195,293	\$253,022
Air Quality Impacts	\$827,669	\$1,072,332
Total	\$5,958,920	\$5,471,296

Should revenues be sufficient at the Casino in the future, additional funding for Parks and Open Space will come to the County. Before any of this is received, however, approximately \$17.4 million must accumulate to repay the Tribe for direct payment made to the County when there was not sufficient revenue to support the guaranteed payments. At current rates of growth, staff is not anticipating that funding for Parks and Open Space will be available in the five-year window being reviewed by this forecast.

Reserves

As part of the Board’s adopted Budget and Fiscal policies, the County’s main General Fund Reserve maintains a minimum of 1 month (8.3%) of revenues and strives to build the General Fund total reserve to be equal to 2 months (16.6%). Based on projected baseline revenues, an average of about \$500,000 per year will need to be added to the Reserve to maintain the minimum 1 month or 8.3% of General Fund expenses required; and about \$45 million per year to reach the 2 month target by the end of FY 2023-24. See following table.

Fiscal Year (in millions)	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
GF Reserve Balance	\$40.7	\$43.2	\$43.2	\$44.2	\$45.2	\$46.0
Reserve Policy Minimum (1 Month)	\$38.9	\$42.6	\$43.7	\$44.7	\$45.6	\$46.5
Estimated Funds Needed for 1-Month	\$0.0	\$0.0	\$0.5	\$0.5	\$0.4	\$0.5
Reserve Policy Target (2 Months)	\$77.8	\$85.3	\$87.3	\$89.3	\$91.1	\$93.0

The current \$43.2 million in the County’s main operating Reserve represents 8.4% of the FY 2019-20 adopted revenues. In order to maintain the Board’s current reserve ratio of 8.4% for FY 20-21, an additional \$1.1 million needs to be programmed for reserves as part of the development of the FY 2020-21 budget. Staff recommends that the additional \$1.1 million be sequestered from overall discretionary revenues before allocating general fund to departments.

FY 2020-21 Budget Plan: Framework and Timeline

For the current FY 2019-20 the Board’s adopted budget programmed over \$265 million towards county operations, with the Sheriff and Probation services accounting for almost 40% of the available ongoing sources.

The FY 2020-21 budget plan will adhere to the Board’s FY 2019-20 ongoing funding allocations priorities, as a reflected by the Board’s restorations and expansion of services decisions. In addition, the departments’ allocations will account for disparate salaries and benefits changes amongst the county’s different programs so that departments with higher equity adjustments will receive a higher portion of the allocation.

As we begin budget development for the new fiscal year, there remains an estimated \$10.8 million funding gap which must be addressed. Consequently, the following main strategies will be implemented in connection with development of the new budget.

- a) Distribute General Purpose Projected Sources (November 25, 2019)
Distribute General Fund allocation amounts to departments based on available revenue.

- b) Program Change Request & Restorations or Add Backs (March 2, 2020)
Departments will be adjusting their operating budget plan to comply with their specified General Fund demand on projected sources. Therefore, some departments may need to make baseline reductions. Staff will be working with departments to develop proposed restorations or add backs which will be brought forward as part of the supplemental budget materials for the Board to consider. Additionally, departments may submit a Program Change Request should they have a dedicated non-General Fund funding source to establish a new program/service or expand an existing one.

- c) Departmental Budget Presentations- Spring Budget Workshops (April 28 - 30, 2020)
Workshops made up mostly of individual department budget presentations are planned from April 28 - 30, 2020. In addition, multi-department/agency presentations will be prepared to present multi-disciplinary initiatives, programs, and/or services.

Key Budget Dates

With the assistance of the departments and agencies, the FY 2020-21 budget development plan is based on the following milestone products and key dates. In addition, based on prior years, it is anticipated that the Governor’s January 2020-21 Proposed Budget will occur the second week of January.

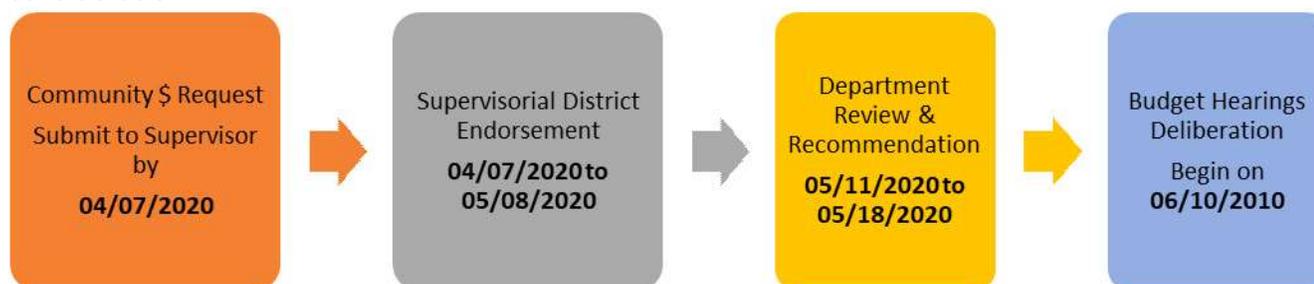
Description	Starts	Ends
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FY 2020-21 Budget Planning & Outlook Report	N/A	Today
Fee Hearings (Regular Item)	12/16/19	03/24/20
Q2 CBA & Updated Projections Presented to Board (Regular Item)	01/02/20	03/24/20
Community & Board Funding Requests for FY 2020-21	03/23/20	**04/07/20** Due Date
Spring Budget Workshop Departments' Presentations Board presentations from 4/28 to 4/30/2020	04/28/20	04/30/20
Post-Workshop: Board Requests for Information Period	Today	05/08/20
Recommended Budget - Online Publication <https://sonomacounty.ca.gov/CAO/Public-Reports/Budget-Reports/>		
(30-days ahead of hearings)	N/A	05/15/20
Departments/CAO Review and Respond to Post-Workshops Board Request for Information and Community Funding Requests	Today	05/18/20
Recommended Budget Book is Available	N/A	05/28/20
Conduct Budget Hearings	06/10/20	06/19/20

Community Funding Requests due to Supervisorial District by 4/07/2020

In order to document, review, and track community funding requests not included in applicable departments' recommended budget, for the first time in FY 2019-20, the Board established a form to allow staff to capture and analyze requests. See attached Community Based Organization Submission Form.

In the spirit of continuous improvement, for FY 2020-21 the process will include a step where the community entity requesting funding must first secure endorsement from at least one Board of Supervisors member before the request is accepted by department staff for review and analysis. All Board of Supervisors' endorsed requests and associated department staff review will be included in the Board's Budget Hearings materials for consideration.



Five Year Budget Improvement Plan

On November 13, 2018, the Board reviewed the County Administrator's Long Term Budget Improvement Plan. The purpose of the plan is to build financial resiliency and increased transparency. The Plan's goals include:

Goal 1: Resilient Balanced Budgets

Establish sustainable long term financial plans, which are resilient to swings in revenues and expenditures. Except for where specifically directed by the Board, the balanced budget goal has been achieved with the FYs 2017-18, 2018-19, and 2019-20 adopted budgets; with the County's main General Fund Reserve maintaining a minimum of 1-month expenses with a desired to build it to a 2-month operating reserve.

Goal 2: Integrate & Collaborate

Leverage resources through enhanced integration and collaboration. Achieving this goal requires County departments and agencies to work collaboratively by breaking down silos and allowing services to be provided efficiently while eliminating duplication of efforts. To this end, the Board established Safety Net providers' Contracting Principles developed by several departments (Human, Health, Probation, Community Development, and County Administrator's Office). As part of the contracting principles, these departments will be working together to identify the highest priority needs and will be presenting their recommendation to the Board in January 2020 for the Board's consideration. In addition, with the FY 2019-20 adopted budget, \$800,000 was programmed to further review services with the goal of identifying additional resource efficiencies for internal services and strengthening program service delivery outcomes through greater coordination and alignment.

Goal 3: Service Inventory

The goal is intended to increase budget transparency so the public has a better understanding of the cost of services, and whether a service is mandated or discretionary. The effort towards reaching this goal is not as far along as hoped.

Goal 4: Performance Metrics

Ultimately, the County Budget will include Board established performance metrics for the Board's highest priorities. The performance metrics are intended to inform the public about how well services are being delivered and the level of resources that are needed to deliver them.

Goal 5: Community Engagement

The desired outcome of this goal aligns both the organization and community toward common purposes and priorities, educate both the County organization and the public about the budget, and provide multiple opportunities for input. As part of the Board's upcoming effort to establish a Multi-Year Strategic Plan, it is expected a community engagement platform will be available to expand from to provide the public with meaningful budget information and allow for community input.

Prior Board Actions:

June 13, 2019 Resolution 19-0268: Adoption of FY 2019-20 County & Agencies' Budgets

FISCAL SUMMARY

Expenditures	FY 19-20 Adopted	FY20-21 Projected	FY 21-22 Projected
Budgeted Expenses			
Total Expenditures	0	0	0
Funding Sources			
Total Sources	0	0	0

Narrative Explanation of Fiscal Impacts:

Not applicable

Narrative Explanation of Staffing Impacts (If Required):

None

Attachments:

General Fund Five Year Fiscal Projection
Tribal Funds Five Year Fiscal Projection
Board Request for Information Forms
Community Based Organization Submission Form
Board Financial Policies

Related Items “On File” with the Clerk of the Board:

None