



Legislation Details (With Text)

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Title: Five Year General Fund Fiscal Projections and FY 2022-23 Budget Update
Sponsors: County Administrator
Indexes:
Attachments: 1. Summary, 2. Attachment A - General Fund Projections FY 22-23, 3. Attachment B - Fee Study (Remediated).pdf, 4. Attachment C - Disaster Claims Summary.pdf, 5. Presentation, 6. REVISED Attachment B - Fee Study.pdf

Date	Ver.	Action By	Action	Result
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To: Board of Supervisors
Department or Agency Name(s): County Administrator's Office
Staff Name and Phone Number: Peter Bruland, 565-2431
Vote Requirement: Informational Only
Supervisory District(s): Countywide

Title:
Five Year General Fund Fiscal Projections and FY 2022-23 Budget Update

Recommended Action:
Receive the fall 5-year fiscal forecast and an update on the FY 2022-23 budget development process and related budget updates.

Executive Summary:
Each year the County Administrator's Office provides the Board of Supervisors with an updated General Fund Projections and an update on the budget process for the coming fiscal year. This item also provides updates on additional budget-related items including the fee study for Agriculture/Weights and Measures, Animal Services, and Permit Sonoma, and the status of FEMA reimbursements.

Consistent with the annually approved county [Financial Policies <https://sonomacounty.ca.gov/CAO/Public-Reports/Budget-Reports/Financial-Policies-for-FY-2021-2022/>](https://sonomacounty.ca.gov/CAO/Public-Reports/Budget-Reports/Financial-Policies-for-FY-2021-2022/), Board of Supervisors annually adopts a structurally balanced budget that does not rely on assumptions of year-end savings to finance future years. The development of this budget is a months-long process that begins in the fall of each fiscal year. This culminates with Budget Hearings and the adoption of the budget, which are scheduled for June 2022. A key part of this process is a review of available resources for budgeting. Currently the General Fund projections show a deficit of \$1.9 million, or 0.3% of the General Fund budget in FY 2022-23, absent any adjustments.

Discussion:
General Fund Projections

The County Administrator’s Office develops and regularly updates five-year projections for the General Fund, the primary discretionary source of revenue available to the Board of Supervisors. This exercise is designed to present an overall view of the County’s Fiscal health and to provide advance views into potential future issues or opportunities. On a more practical note, the development of the projections during the fall sets the basis for budgeting for the coming fiscal year, by estimating how much revenue will be available for the following year for departments that depend on the General Fund for support.

The Five-year General Fund Fiscal Projections (Attachment A) offer an illustration of where we would expect General Fund sources and uses to come in for the current year and each year from FY 2022-23 and FY 2026-27 under current policies. Table 1 shows a summary of these projections.

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

	FY 21-22 Projected	FY 22-23 Projected	FY 23-24 Projected	FY 24-25 Projected	FY 25-26 Projected	FY 26-27 Projected
Total General Fund Sources	\$575.5	\$567.5	\$581.3	\$595.1	\$609.1	\$622.9
Total General Fund Expenditures	\$567.6	\$569.4	\$591.1	\$606.4	\$623.3	\$640.6
Total Surplus (Deficit)	\$7.9	(\$1.9)	(\$9.8)	(\$11.3)	(\$14.1)	(\$17.7)

On June 18, 2021, the Board adopted a balanced budget for FY 2021-22. Based on improved revenue projections, we are currently anticipating a \$7.9 million surplus in the current fiscal year. This is due to a \$2.5 million increase in secured property tax based on the final 2021 tax rolls (per Board policy, \$1 million of that is assigned to the Deferred Maintenance Fund), \$4.8 million in improved sales tax revenues and Proposition 172 revenues (which are also based on sales tax) based on most recent estimates from the County’s sales tax consultants, and \$1.6 million in improved transient occupancy tax revenues based on final receipts from FY 2020-21.

Beginning in FY 2022-23, the projections show deficits. One-time funding totaling about \$20.8 million in one-time sources programmed in the FY 2021-22 budget drops out, leading to an \$8 million decrease in total sources even as revenues increase by \$12.8 million. While the majority of these uses are tied to one-time expenditures, a few programs that were funded by 1-time sources, notably the Sheriff’s helicopter program, are assumed to continue for purposes of the fiscal forecast, leading to a \$1.9 million deficit (or about 0.3% of revenues).

The deficit increases significantly to \$9.8 million in FY 2023-24 (about 1.7% of revenues), primarily driven by anticipated staffing costs at the Behavioral Health Unit at the Main Adult Detention Facility, which is expected to be completed during that fiscal year. While the 2003 pension obligation bonds will be paid off that year, leading to a \$12.2 million decrease in expenditures, these are anticipated to be offset by an increase in pension rates calculated by the Sonoma County Employee Retirement System based on a decrease in the discount rate from 7% to 6.75%, which leads to an \$11.5 million increase for the General Fund. Following this, deficits gradually increase based on expenditures outstripping projected revenues.

It is important to note that these projections assume no change to current policies. Changes that either increase revenue (such as raising fees to match costs) or decrease expenditures (such as reducing positions) could change this dynamic. In fact, the County Administrator will present a balanced budget to the Board each year, so deficits should be seen to indicate the need for policy adjustments, not a projection that the

County will run a deficit.

While the model does take into account a number of upcoming items for which direction has been given, it is important to note that there are additional items that are anticipated, but which have not been included because policy direction has not yet been given or because there is too much uncertainty over eventual impacts. The largest of these is the upcoming County Center redesign, including the purchase of the Sears site for approximately \$20 million which the board authorized county staff to pursue negotiations. Among other items, there is still a \$1.5 million gap in funding for the Crestwood Psychiatric Health Facility, which forms a critical link for patients who are not able to stabilize their conditions in the window allowed for the Crisis Stabilization Unit. In addition to these items, the forecast does not specifically allocate ongoing funding toward Board strategic priorities or other unknown upcoming items.

One potential source for some of these unmet needs is the FY 2020-21 year end General Fund balance. The County closed the FY 2020-21 fiscal year with \$33.6 million in unassigned fund balance in the General Fund. Of this total, \$18.5 million was programmed at budget hearings as follows: \$6 million programmed at budget hearing for one-time investments; \$5 million for Strategic Plan implementation (funds to be distributed to department proposals in January); \$3.75 million for paying down unfunded pension liability; and \$3.75 million for Deferred Maintenance/County Center.

Including the \$3.75 million listed above, the County anticipates ending the fiscal year with a deferred maintenance balance of \$9.8 million, less currently programmed funding. This winter staff will be returning with a funding model for the County Center project, which will include a set of upcoming costs associated with the project that will need to be paid separately from the ongoing availability payments under the public-private partnership model. These items are anticipated to require significant funding over the next several years. In addition, the county will continue to have deferred maintenance needs at facilities that are not being moved to the new county center as well as urgent, short term needs at facilities that will move. As such, it is recommended that fund balance be reserved for the Sears purchase at this time.

Update on Fees

2019/20 FEE SCHEDULES CONSULTANT REVIEW

Absent specific board policy or direction, under the '[Boards Financial & Budget policy Revenue Management <https://sonomacounty.ca.gov/CAO/Public-Reports/Budget-Reports/Financial-Policies-for-FY-2021-2022/>](https://sonomacounty.ca.gov/CAO/Public-Reports/Budget-Reports/Financial-Policies-for-FY-2021-2022/)' category, "Programs financed by charges for services, fees, grants, and special revenue fund sources shall pay their full and fair share of all direct and indirect costs to the extent feasible and legally permitted, which will include cost recovery towards future assets and/or system replacement." Given the fiscal policy in place to ensure validated methodologies are used for fee development, NBS consultants were engaged in 2019 to review fee schedules for the Department of Agricultural/Weights & Measures (AWM), Permit Sonoma (PS), and Health Services Department Animal Care & Control (ACC) division.

Findings

Hundreds of individual fees were analyzed to determine whether 2019 rates were set under or over the 100% of full cost of providing services. NBS did not scrutinize service delivery efficiencies nor validate pre-2019 adjustments associated with extraordinary events such as disasters. The main findings are:

1. In aggregate, except for some rate in Animal Care & Control, the 2019/2020 Board approved fees and charges were set to recover approximately 79% of the total projected costs.

2. If 2019/2020 fees and charges had been set, to align with current policy, “pay their full and fair share”, an additional \$5.76 million in budgeted fee revenue would had been included in the 2019/20 adopted budget.

Department / Division / Section	Estimated Annual Current Fee Revenue	Estimated Annual Full Cost Recovered Fee Revenue	Annual Cost Recovery Surplus (Deficit)	Current Cost Recovery %
Animal Services	\$ 1,114,885	\$ 1,055,345	\$ 59,542	106%
Agriculture/Weights and Measures	\$ 802,568	\$ 1,557,907	(\$ 755,338)	52%
Permit Sonoma	\$ 19,518,175	\$ 24,580,953	(\$ 5,062,777)	79%
Total	\$ 21,435,629	\$ 27,194,205	(\$ 5,758,574)	79%

Overall, the current County of Sonoma fees and charges for these programs are at or below comparable public entities.

- Animal Services Department: Marin Humane Society, Monterey County, County of Santa Cruz, County of San Mateo and Yolo County.
- Agriculture/Weights and Measures: Alameda County, Contra Costa County, Marin County, Napa County, and San Mateo County
- Permit Sonoma: Marin County, Napa County, City of San Rafael, City of Santa Rosa and City of Walnut Creek

See attachment B for the full Fee Study Review

FY 2022-23 Fee Adjustments & Subsidy Recommendations

To avoid relying on double-digit percentage increases to balance the Recommended FY 2022-23 budget and not cut expenses affecting service delivery, staff recommends adjusting these programs baseline General Fund contribution by a total of \$1.38 million, as follows:

- \$234,000 for Animal Services Division to finance revenue loss resulting from adjusting rates within or less 100% FY 2022-23 cost recovery
- \$145,000 for Agricultural/Weights & Measures to formally establish subsidy level for the Vineyard and Orchard Site Development Ordinance (VESCO) program; and
- \$1 million for Permit Sonoma, to maintain a 7% or less average annual increase for the next 3 years - assuming no significant year-over-year cost of doing business changes.

In addition, given the Board has, prior to this study, adopted balanced budgets that significantly subsidize important community-wide benefit programs, staff recommends revising the Budget & Financial Policies to recognize the Board has and may establish fee subsidies for specific community wide public benefit programs.

Note, that the suggested baseline adjustments and potential adjustments are NOT incorporated into the current forecast. The Board will have the opportunity to review and adjust fees during the Consolidated Fee Hearings scheduled for March, 2022. It is important to note that these departments have generally held fees flat for the past two years while the fee study was ongoing, and in Permit Sonoma has made only one cost of living adjustment in the past four years. At that time, the Board will be able to consider the proposed Permit Sonoma and other fee adjustments discussed above.

Update on Status of FEMA reimbursements

The Disaster Finance Team is currently managing eight FEMA/Cal-OES declared disaster events, which

collectively include 112 projects in various stages of project creation, approval, claiming and close-out. To date, 36 of those projects have been submitted to Cal-OES and FEMA for close-out and final payment.

The FEMA grant claiming process is long, complex, and dependent on FEMA and Cal-OES processes that are largely outside of the County's control. Despite the exceptional efforts of the County's Disaster Finance Team, reimbursement of eligible costs can take several years, forcing the County to finance disaster response costs with discretionary funds while it waits for reimbursement.

The purpose of this analysis is to forecast the impact of FEMA/Cal-OES project costs and reimbursements on the General Fund. The information below is limited to only Category A (Debris Removal) and Category B (Emergency Disaster Response) projects, which are accounted for within the General Fund. Although Categories C-G (permanent work) projects represent a significant portion of total FEMA/Cal-OES claims, those projects are accounted for in department budgets largely outside of the General Fund and for that reason are excluded from this analysis. Additionally, this analysis excludes the CARES program, which was fully accounted for in prior years, and ARPA, which is outside the scope of this analysis. See Attachment C - FEMA/Cal-OES DISASTER REIMBURSEMENT PROJECTIONS for a full analysis by disaster event.

Fiscal Year 2022-23 Budget Development

The process for FY 2022-23 budget development will be similar to recent years, with the exception of the COVID-impacted FY 2020-21 budget development cycle. This item marks the first Board touchpoint in the fiscal year 2022-23 budget development cycle. Utilizing information from the forecast, staff will distribute General Fund contribution amounts for the coming fiscal year to departments in December to begin working on their budgets. The next major touchpoint for the Board of Supervisors will be on March 22, 2022, when the County will hold its annual consolidated fee hearing to set fees and charges for service for the 2022-23 fiscal year. As in the last several years, the County will hold budget workshops in advance of budget hearings to give the Board and the public a chance to hear from each of the County's departments and agencies and to ask questions about their recommended budgets. This cycle the budget workshops will occur from April 25-27, 2022. Following the budget workshops, staff will publish the Recommended Budget on May 13, approximately one-month in advance of budget hearings. Budget hearings for the fiscal year 2022-23 budget will be held during the weeks of June 13 and June 20. It is expected that the hearings will take place from June 14-17, with presentations and deliberations on Tuesday, June 14 and Wednesday, June 15, and final adoption on Friday, June 17. As in the past, two weeks are reserved for budget hearings to ensure that the budget can be finalized and adopted before the beginning of the next fiscal year.

Similar to past years, the County will offer an opportunity for Board and community budget requests and for Board budget inquiries. The purpose of these processes is to ensure that the Board will have appropriate information to make decisions about the budget at budget hearings. As such, these also have cut-offs for delivery. Community and Board budget requests will be due on April 5, 2022. This date is set to give staff time to review and compile any information needed for the Board to evaluate these requests at the June budget hearings. Board budget information request are due by April 29 in order to give staff time to prepare answers by budget hearings.

In alignment with the Strategic Plan, the County Administrator's Office is engaging in a process to improve the budget by making it more transparent and relevant to the Board and to the public. In this spirit, staff are beginning work with Departments on a model of service-based budgeting to better align the information

presented with services provided as opposed to aligning to more technical accounting categories. While this work has been launched behind the scenes, the most public-facing elements of this change will be seen in the fiscal year 2023-24 budget.

Strategic Plan:

N/A

Prior Board Actions:

None

FISCAL SUMMARY

Narrative Explanation of Fiscal Impacts:

This item is informational only and has no direct fiscal impact.

Narrative Explanation of Staffing Impacts (If Required):

None

Attachments:

Attachment A - General Fund Fiscal Forecast

Attachment B - Fee Study Review

Attachment C - FEMA Reimbursement summary

Related Items "On File" with the Clerk of the Board:

None