



Legislation Text

File #: 2019-1194, **Version:** 1

To: Board of Supervisors

Department or Agency Name(s): County Administrator's Office and Auditor-Controller-Treasurer-Tax Collector

Staff Name and Phone Number: Niki Berrocal, Deputy County Administrator and

Vote Requirement: Majority

Supervisorial District(s): All

Title:

Fiscal Year 2018-19 Year-End Close of Books and Adoption of Fiscal Policies for the Board's Economic Uncertainty and Infrastructure Funds Established During the Fiscal Year 2019-20 Budget Hearings

Recommended Action:

- A) Receive report of fiscal year 2018-19 close of books, and approve \$15.7 million in one-time uses from the unrestricted and unassigned General Fund year-end balance.
- B) Approve new fiscal policy for the Economic Uncertainty fund.
- C) Approve new fiscal policy for the Infrastructure fund.

Executive Summary:

After closing the books, the General Fund balance for fiscal year (FY) 2018-19 ended at \$15.7 million. Per the Board's FY 2019-20 Adopted Budget resolution, the County Administrator was directed to distribute year-end General Fund balance as follows:

- first 50% up to \$5 million to be used for pre-payment of unfunded pension liabilities;
- next 25% up to \$2.5 million to be used to create an Economic Uncertainty Fund;
- next 25% up to \$2.5 million to be used to increase General Fund Reserves.

The Adopted Budget resolution also states that should FY 2018-19 year-end General Fund balance be greater than \$10 million, any additional balance will be made available for one-time needs as determined by the Board of Supervisors. Staff is recommending that the remaining fund balance of \$15.7 million be used for: (1) demolition of the Chanate property (\$10.8 million); (2) investments in resiliency efforts related to the reconfiguration of the Santa Rosa, Petaluma, Sebastopol, Sonoma, Cloverdale, Guerneville, and Cotati Veterans buildings in order to pre-wire the buildings so that a portable generator can be connected during de-energization or other disaster events (\$1.9 million); and (3) the remaining balance of \$3.0 million to replenish the Board's General Fund reserves.

Staff is also presenting for the Board's approval two fiscal policies that provide parameters around the Economic Uncertainty Fund and Infrastructure Fund that the Board established during the FY 2019-20 budget

hearings.

Discussion:

FY 2018-19 Year-End Fund Balance

All funds closed with \$1.54 billion in expenditures, \$1.66 billion in revenue, and \$53.2 million in encumbrances. Expenditures came in well below the FY 2018-19 revised budget by \$349 million and revenues were \$96.6 million lower than expected. The focus of this report is the General Fund year-end close and its related fiscal policy recommendations.

The FY 2018-19 year-end General Fund balance of \$15.7 million is a combination of several variable factors. The largest components of the year-end General Fund balance in FY 2018-19 were \$7.6 million from increased other taxes including \$2.1 million from property tax, and \$8.1 million from department expenditure savings. The departments with the largest expenditure savings include Clerk-Recorder-Assessor with \$1.1 million under budget, Probation Department with \$1.4 million under budget, and the Sheriff's Office with \$3.5 million under budget.

The Board's FY 2019-20 Adopted Budget resolution pre-assigned FY 2018-19 fund balance in the following manner:

- first 50% up to \$5 million to be used for pre-payment of unfunded pension liabilities;
- next 25% up to \$2.5 million to be used to create an Economic Uncertainty Fund;
- next 25% up to \$2.5 million to be used to increase General Fund Reserves.

Use of Fund Balance to Address Unfunded Pension Liabilities

During the FY 2019-20 Budget Hearings, the Board approved the following actions toward the Pension Ad Hoc Committee's recommended strategies for reducing the County's unfunded pension liability. As outlined above, from the FY 2018-19 year-end fund balance \$5 million will be used for pre-payment of unfunded pension liabilities. This is in addition to the 0.5% of payroll prepayment of unfunded pension liabilities adopted by the Board in the FY 2019-20 financial policies. In total, \$6.9 million will be programmed in FY 2019-20 to accelerate the reduction of unfunded pension liabilities. Assuming \$1.9 million is an ongoing pre-payment, staff estimates that unfunded pension liabilities will be reduced by an additional \$10 million over a 20-year period due to investment earnings on the pre-payment amounts (using the discount rate from the 12/31/2017 SCERA actuarial valuation).

Use of Fund Balance to Replenish Reserves

Per the Board's direction, staff have transferred \$2.5 million from FY 2018-19 year-end fund balance into General Fund Reserves, resulting in a new unassigned balance of \$43.2 million in General Fund Reserves, or 8.7% of General Fund operating revenues for FY 2019-20. The Adopted FY 2019-20 General Fund Reserve minimum is \$41.5 million or 8.3% of annual General Fund operating revenues. The \$43.2 million of General Fund Reserves is \$1.7 million above the floor set by the Board's financial policy. The Board established General Fund target, based on the Government Finance Officers Associations (GFOA) guidelines, is two months of operating revenues or 16.7%. This would be approximately \$82.9 million for the FY 2019-20 Adopted General Fund operating revenues totaling \$497.5 million.

The Adopted Budget resolution also states that should FY 2018-19 year-end General Fund balance be greater than \$10

million, any additional balance will be made available for one-time needs as determined by the Board of Supervisors. After making the above distributions, there remains \$15.7 million in available one-time funds. Staff recommends the following uses for the remaining \$15.7 million of available FY 2018-19 year-end General Fund balance:

\$10.8 million: Chanate Demolition

The County has undergone two surplus sale processes for the Chanate property. The first surplus process in 2016 was unsuccessful, and the current one has seen numerous challenges, including neighborhood opposition to the property sale efforts, affordable housing proposers dropping out, and the health and safety risks due to vandalism of the vacant hospital and surrounding buildings, as well as uncertainty around fault line locations. On August 20, 2019, the Board directed staff to begin negotiations with the one remaining proposer, EAH Housing, and concurrently to begin developing a Request for Proposal (RFP) to demolish the hospital and vacant buildings in the event negotiations with EAH Housing do not end favorably. The most recent cost estimate to demolish the hospital and the remaining buildings is \$10.8 million, as listed in the 2019 Capital Improvement Plan (CIP). Until bids come in we will not know the actual demolition costs, but as a precautionary measure, the County Administrator is recommending the set aside of \$10.8 million of FY 2018-19 fund balance to fund potential demolition activities.

\$1.9 million: Veterans Building Disaster Resiliency Centers

To prepare for potential de-energization events and future disasters, key Veterans facilities would be wired appropriately to handle a generator that can run the facilities including heating, ventilation, and air conditioning (HVAC), (to the extent the Veteran's facility has air conditioning). Staff recommends \$1.9 million in one-time costs for the General Services Veterans Centers program to fund the following upgrades:

- Update existing HVAC as needed;
- Wiring for generators;
- Purchase/lease program for generators;
- Other upgrades as needed for center readiness.

Seismic retrofits and generator projects for Veteran's buildings in Petaluma, Santa Rosa, Sonoma, and Guerneville were submitted through the Hazard Mitigation Grant Program. Currently, the Veterans building projects were denied based on the cost benefit analysis and needs assessment.

\$3.0 million: General Fund Reserve Restoration

The General Fund Reserve target is 16.67% or \$82.9 million, per the Board's Financial Policy. The General Fund Reserve FY 2019-20 Adopted floor is 8.3% or \$41.5 million. The current General Fund Reserve unassigned balance is \$43.2 million, 8.7% or \$1.7 million above the floor. Staff recommends adding \$3.4 million of unassigned General Fund balance to replenish the General Fund Reserve. If the Board approves this recommendation, the General Fund Reserve balance would be \$46.2 million, 9.3% or \$4.7 million above the floor. Restoration of the Reserve is consistent with the Board's FY 2018-19 intention and adopted policy to replenish the total draw down of \$12.4 million for: a) Wildfire recovery and resiliency efforts including local match for Hazard Mitigation grants supporting Wildfire Recovery, \$8.5 million; and b) Federal Emergency Management Agency (FEMA) audit reserve \$3.9 million.

Adoption of Fiscal Policies for Economic Uncertainty Fund and Infrastructure Fund

In addition to providing an update of the FY 2018-19 close of books General Fund position, and as directed by the Board, staff is presenting for the Board's consideration the following fiscal policies for the newly established Economic Uncertainty and Infrastructure funds.

Economic Uncertainty Fund

The Auditor-Controller-Treasurer-Tax Collector and the County Administrator's Office have developed a recommendation for the Board's consideration related to the Economic Uncertainty Fund of \$2.5 million as established per Board Resolution 19-0268.

This fund's intention is dual purpose; setting one-time fund balance aside to (i) help weather future economic downturns and (ii) build special contingency funds to be available for disaster response efforts including local match requirements and unreimbursed response measures. This fund will provide the County agility to respond to an unexpected economic downturn or to the County's immediate needs during an emergency. The Department of Emergency Management, the County Administrator's Office, and General Services are establishing standing blanket purchase orders and service contracts for immediate response during an emergency, such as fuel supply contracts, porta-potties, food services etc., in compliance with federal procurement guidelines should any event become declared for reimbursement eligibility. Based on the Board's direction at budget hearings, this item recommends a policy for the new Economic Uncertainty Fund of \$2.5 million available to support direct response efforts for emergency events or respond as directed by the Board to an economic downturn. The recommended Fiscal Policy for the Economic Uncertainty Fund is attached.

Infrastructure Fund

The Auditor-Controller-Treasurer-Tax Collector and the County Administrator's Office have developed a recommendation for the Board's consideration related to the new fund of \$5 million for unfunded infrastructure needs. The intent of this fund is to address infrastructure needs that carry a countywide liability or immediate risk to health and safety. The fund is also meant to provide a local match for projects that otherwise do not have a readily identified funding source. The goal of matching funds would be to leverage state and federal grants or other resources. The County Administrator's Office will facilitate a process to ensure that the projects selected maximize available grant or other funds and meet the Board's intention for these funds as stated above. The Fiscal Policy for the Countywide Infrastructure Fund is attached.

Prior Board Actions:

FY 2019-20 Budget Adoption June 14, 2019

FY 2018-19 Budget Adoption June 12, 2018

FISCAL SUMMARY

Expenditures	FY 19-20 Adopted	FY20-21 Projected	FY 21-22 Projected
Budgeted Expenses			
Additional Appropriation Requested	15,700,000		
Total Expenditures	15,700,000		
Funding Sources			
General Fund/WA GF	15,700,000		
State/Federal			
Fees/Other			
Use of Fund Balance			
Contingencies			
Total Sources	15,700,000		

Narrative Explanation of Fiscal Impacts:

Staff recommendations for the \$15.7 million in General Fund year-end balance above the distributions per the fiscal policy would result in \$10.8 million will be programmed toward the demolition of the Chanate campus; \$1.9 million to the General Services Veteran's building program for upgrades toward becoming

disaster resiliency centers; and \$3.0 million toward replenishment of the General Fund Reserves.

Staffing Impacts

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

Narrative Explanation of Staffing Impacts (If Required):

Attachments:

Attachment 1 - Economic Uncertainty Fund Fiscal Policy

Attachment 2 - Infrastructure Fund Fiscal Policy

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