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DATE: September 8, 2020

TO: Members of the Board of Supervisors

FROM: Sheryl Bratton, County Administrator

SUBJECT: Sources Available for Board Budget Balancing Deliberations

Due to the impact of COVID-19, Departments and Agencies were required to reduce expenditures in line with decreased revenue expectations. In addition, some departments had already made cuts in order to balance their recommended budgets due to the failure of available funding to match increased costs in those departments. These reductions are discussed further under a separate tab, which includes potential reductions of $38.5 million, consisting of $25.2 million in ongoing expenses and $13.3 million in one-time savings.

These reductions were initiated before the Department of Health Services had developed a full plan for COVID-19 response. While Federal funding through FEMA and the CARES Act will cover costs of the response through December 2020, as of the time of writing there is no approved Federal or State funding for 2021. As such, staff recommend setting aside one-time funding totaling $20 million to pay for ongoing response in 2021.

In order to help offset these reductions, staff have identified ongoing and one-time sources that are available for the Board to program. This memo describes potential sources that the Board may use in order to restore departmental reductions or meet additional Board priorities during budget hearings deliberations. A summarized version of these sources are listed on the Balancing Tool (included separately), which will be used during budget hearings to track actions made by the Board. In sum, $12.9 million in ongoing discretionary sources are available, leaving a fiscal budget gap of $13.1 million for existing ongoing department operational needs. This fiscal gap does not take into account Board priorities that have been recently funded or discussed since the approval of the Recommended Budget (e.g., Office of Equity; IOLERO resources). However, we have also identified $34.1 million in ***one-time*** available accumulated balances for the Board to consider during final budget hearings actions, in addition to $3 million available in General Fund Contingencies as of 9/1/2020. These amounts do not assume any use of PG&E Settlement funds for FY 2020-21 budget balancing.

The County Administrator is recommending $6.7 million in ongoing restorations, consisting primarily in restorations that will avert potential layoffs, and $817,000 in ongoing to replace use of contingencies for approved positions related to the creation of the Equity Office, which aligns these ongoing needs with ongoing revenues sources. These recommendations leave $6.2 million in ongoing revenue for the Board to use for further restorations or to meet emerging priorities.

The County Administrator also recommends that $2 million in one-time funding be used for restoration of Fire Service Project funding to offset reductions in Proposition 172 and Transient Occupancy Tax Funding and ensure that the fund can meet existing obligations to Fire Districts and to restore overtime and extra help funding to the Clerk-Recorder-Assessor to assist with the 2020 elections.

Additionally the County Administrator recommends, that $4 million of one-time funding be utilized to increase the FEMA Audit Reserve of 20% of claims for all currently open disasters, in line with the reserve created for the 2017 Wildfires. This reserve, discussed further in the General Fund Reserve Memo on a separate tab, currently stands at $4.45 million and accounts only for the 2017 Wildfire claims. Further, it is recommended that $20 million be set aside for COVID-19 Responses during 2021. Current funding from FEMA and CARES is not set to go beyond December 2020, although it is clear that the County will continue to need to respond to the pandemic into 2021. Finally, it is recommended that the Board retain at least $3.5 million in Contingency funding to be prepared for any future events. If all of these changes are accepted, it will leave $8.4 million in one-time funding available for the Board to address reductions.

The County Administrator also recommends that $8.5 million of the PG&E Settlement revenue from the 2017 Fires be used to replenish Reserves for the $8.5 million that was appropriated in 2018 in response to the 2017 wildfires.

The Board adopted Financial Policies states that ongoing commitments, such as permanent positions, should be funded with ongoing revenues, and that one-time sources should be used only to fund one-time needs. The County Administrator recommends that the Board follow this policy when considering funding sources for restoring services. In the event that the Board does desire to use one-time sources to match ongoing needs, the County Administrator recommends programming at least three years of funding from the one-time source in order to get through an extended economic downturn.

Below are descriptions of sources available for the Board's consideration.

Ongoing Sources ($12.9 million total):

General Fund Available Revenue - $9.6 million

Based on forecasts available in June, it was estimated that the General Fund would face a $24 million ongoing shortfall due to reduced revenues. Departments were thus required to reduce discretionary General Fund contributions by 10%. In addition, various revenue sources that flow directly into general fund Departments, including Proposition 172 Public Safety funding and permit and fee revenues were reduced.

These reductions have freed ongoing General Fund revenues of $12.6 million that the Board can use to prioritize restorations. This amount, however, is inflated by the fact that a number of General Fund departments are using approximately $3 million of one-time fund balances from other funds to backfill lost ongoing revenues. This creates needed capacity in the current year, but disguises the nature of the ongoing deficit. As such, we recommend programming $9.6 million of the total as ongoing and $3 million as one-time.

This funding is available for several reasons. First, projections for some revenue streams have improved since June. Based on early data, Sales Tax declines are not projected to be as severe as was initially forecast, resulting in the availability of an additional $1.8 million of ongoing revenue. Projections revision includes final property assessment, which is anticipated to grow county tax apportionment by an additional $1 million. Existing policy allocates 40% of this unanticipated property tax growth toward Deferred Maintenance/County Center Rebuild, leaving $600,000 available for programming. Second, CAO-required adjustments were slightly higher than estimated revenue losses in order to provide additional flexibility and capacity for the Board to consider retaining traditionally non-General Fund services (e.g., Health and Human Services). In addition, larger adjustments positioned the County to address still significant uncertainty as to the economic impacts of COVID-19. While revenue estimates were improved, at the time targets were created it was equally likely that the forecast might worsen, requiring still further cuts.

While we have more data about the impacts now, significant uncertainty persists, and utilization of these resources is not without the risk that future reductions may be needed. The most recent economic update will be presented by Dr. Eyler during budget hearings, which reflects the continued uncertainty with three potential paths that the local economy may take.

Reinvestment and Revitalization Funds - $2.5 million

Reinvestment and Revitalization funds have been increasing for several years as the Redevelopment Successor Agencies wind down activities, freeing residual revenue to be restored to the County and other entities that lost property tax funding to redevelopment. Based on an analysis of remaining obligations of the Successor Agencies, the Auditor-Controller-Treasurer-Tax Collector and the County Administrative Officer recommends $2.5 million in additional revenue be considered ongoing and made available to address Board determined priority service and program restorations.

Graton Casino Mitigation – In Lieu TOT - $843,000

As part of the amendments approved by the Board on 12/17/2019 to the Intergovernmental Agreement between the County and the Graton Rancheria for mitigation of impacts of the Graton Casino, the in lieu Transient Occupancy Tax (TOT) payment that was formerly dependent upon sufficient revenue being received by the Casino was converted into a guaranteed amount agreement term. This funding stream, which compensates for lost TOT revenue as the Casino's Hotel is not taxable, is not restricted in its uses by the agreement. Based on the revised agreement, the Graton Rancheria received a one-time payment to backfill for previous quarters in which this payment was not received, and has begun receiving the payment in full. Prior year fund balance is included in the One-Time Sources section.

<u>One-Time Sources ($34 million):</u>

General Fund FY 2019-20 Year End fund balance - $14.1 million
The County closed the books for Fiscal Year 2019-20 with $14.1 million in fund balance in the General Fund. As per the County's Fiscal Policies, this balance was not programmed into the recommended FY 2020-21 budget and is available for one-time uses. The fund balance accrued largely due to savings in salary and benefits, in part as hiring slowed during the COVID-19 Pandemic.

General Fund Available Revenues - $3 million
As noted above, staff recommend that $3 million of expected FY 2020-21 General Fund capacity be used as one-time to preserve capacity for balancing the FY 2021-22 budget.

Reinvestment and Revitalization Fund Balance - $6.7 million
The Reinvestment and Revitalization fund contains an available fund balance of about $6.7 million. While the available Fund balance was programmed during the FY 2019-20 budget cycle, additional fund balance accrued due to higher than estimated revenues in FY 2018-19 and FY 2019-20. This funding is available for programming, and does not include $7.5 million of funding earmarked for specific projects that will be budgeted when those projects are ready to move forward.

Reinvestment and Revitalization Fund – Southwest Santa Rosa Annexation Set Aside - $2.5 million.
During negotiations for the annexation of Southwest Santa Rosa by the City of Santa Rosa, the County set aside $2.5 million in Reinvestment and Revitalization fund balance for additional needs that might arise around the annexation. With the annexation completed in FY 2017-18, and associated costs built into the ongoing budget, the $2.5 million can be programmed to address other County priorities.

Capital Project General Fund Contribution - $5.5 million
The refunding of the Tobacco Securitization Asset-Backed Bonds, approved on 8/18/2020 will generate an estimated $6.7 million in additional up-front proceeds to the County. This funding can only be used for Capital Projects. Consequently, staff recommends the Board use these funds to supplant the $5.5 million in General Fund expenditures budgeted to Capital Projects in FY 2020-21, freeing up $5.5 million to be used for other one-time priorities. Alternatively, the additional tobacco funding could be added to the deferred maintenance fund for future programming.

Fund Balances Review - $2.1 million (net of Reinvestment & Revitalization)
At the direction of the Board, staff annually completes a review of all funds governed under the Board. The annual review validates uses restrictions for each fund. The memorandum describing the results of the review are included under a separate tab.

Please note that the aggregated estimated FY 2020-21 year-end balance includes $1.9 million from Refuse Franchise Fees, which Refuse Franchise Fees shall be accounted for in the same manner as other franchise fees in which by Board policy the designated use is for solid waste obligations, roads infrastructure preservation, and other Board of Supervisors priorities. Also, per the Board's Policy, if used for road infrastructure preservation, these funds are not intended to supplant on-going County General Fund contributions nor are they intended to increase any external maintenance of effort requirements imposed by outside funding sources, but may be used to satisfy previously established maintenance of effort levels.

Additional One-Time For Consideration ($11.4 million):

Board Contingencies - $3 million
As of August 19, approximately $3 million in Board Contingencies remain. Additionally, the County Administrator recommends programming $817,000 of available ongoing funding to replenish Contingencies for items related to the creation of the Office of Equity. This both makes additional contingency funds available for the remainder of FY 2020-21 and aligns these ongoing needs with ongoing sources. This will create a balance of $3.8 million that could be used to offset other reductions; however, given the highly uncertain nature of the years staff recommend that the Board maintain at least $3.5 million in capacity for the remainder of FY 2020-21. Contingency funds are generally available for one-time uses. Alternatively, the Board could choose to reduce the $5 million annual contingency amount to use a portion to program for ongoing needs.

PG&E Settlement Proceeds – $8.5 million
The County Administrator is recommending that $8.5 million of the PG&E proceeds be used to restore the $8.5 million in General Fund Reserves that were appropriated in 2018 as a result of the 2017 Wildfires. In addition to considering this recommendation, the Board could decide to utilize a portion of the PG&E settlement proceeds to address FY 2020-21 budget shortfalls. In the event that the Board does desire to use one-time sources to match ongoing needs, the County Adminstrator recommends programming at least three years of funding from the one-time source in order to address a potential extended economic downtown.

One-Time Funds not Identified for Restoration

Tax Loss Reserve (Teeter) Fund – Not Recommended
The Tax Loss Reserve (Teeter) Fund is required to maintain a minimum balance of 1% of the tax levy, which translates to approximately $11 million in FY 2020-21. Board policy is that a reserve of 2% ($22 million) be maintained, while the Board has been operating for several years under a temporary revision that calls for 1.25% ($13.8 million) to be maintained. The fund has a current

beginning balance of $17.4 million, with $4 million of regular expenses programmed in the Recommended Budget. The fund is replenished with penalty and interest collections from delinquent property taxes. With those penalties suspended for COVID-19-related losses, the future revenue for this fund may be highly impacted. As such, this fund is in danger of approaching the 1.25% minimum, and it is not recommended that additional Teeter funds be used in FY 2020-21.

Tribal Fund Balances – Not Recommended
During the FY 2019-20 Budget Hearings, most fund balance not associated with highly restricted programs was programmed. In addition, significant uncertainty remains around tourism and gaming in light of the ongoing epidemic and related recession. As such, we are recommending reserving remaining available fund balance as potential backfill should expected ongoing revenues not materialize.

Summary of Balancing Tool

The available amounts and departmental reductions are included on the Balancing Tool in a separate tab. County Administrator recommendations are reflected by separating items into the following sections and color coding:

- White = reflects priority restorations recommended by the County Administrator.
- Green = reflects reductions that include many filled positions and other high-priority restorations.
- Yellow = reflects many unfilled positions and other non-personnel restorations that are critical for service delivery.
- Gray = reflects reductions that are recommended for approval by the County Administrator. Examples include: utilization of other revenue sources and fund balances and /or reductions that can reasonably be absorbed by Departments, including travel and training reductions.