COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE:	May 24, 2019
TO:	Board of Supervisors
FROM:	Birgitta E. Corsello, County Administrator
SUBJECT:	FY2019/20 Recommended Budget

The County Administrator's office recommends that the Board of Supervisors conduct Budget Hearings beginning at 9:00 a.m. on June 18, 2019 and adopt a County Budget for FY2019/20 at the conclusion of the hearings. During the hearings, the Board will be requested to consider and approve funding new positions, investments in technology, equipment and facilities, approve funding contracts for services, contributions to Non-County Agencies, draws and contributions to reserves, and the use of one-time funds received in FY2018/19.

In developing the Recommended Budget for FY2019/20, departments were asked to submit a budget that considered their requirements to provide services to the community and to factor in the ability to address increased operating needs and cost in a competitive labor market with the potential of restrained growth in the General Fund. The FY2019/20 Recommended Budget reflects a concentrated effort to balance increasing labor costs and service demands while continuing to address Board priorities and mandated programs. We remain confident that the ongoing use of Board adopted Budget Strategies, and sound financial practices, will enable the Board and departments to continue their commitment to provide essential and effective services leveraging technology, partnerships, and State and federal funding when feasible.

We have worked close with Departments to make recommendations that reflect continued efforts to mitigate increasing operational costs, staffing needs and increasing State mandates with other methods to provide services. The recommendations are intended to address what we need today, with what we anticipate is coming in the next year in new legislation or reduced federal funding. We are recommending setting aside funds for known financial obligations including pension, capital renewal and technology refresh, and contributions to various reserves for "rainy days." We have anticipated and need to prepare to handle additional changes in State and federal requirements and funding, so maintaining reserves and contingencies is recommended.

The FY2019/20 Recommended Budget includes a section dedicated to the County Statistical Profile. This section provides key information on Solano County's current economic outlook and captures indicators including population growth, unemployment and the economy, changes in personal income and how it affects purchasing power, health insurance and public assistance, commuter trends, housing and rental affordability and building trends. (*See County Statistical Profile Section*).

Included in this budget message are the following budget-related sections: 1) Budget Overview; 2) Financial Summary; 3) General Fund Reserves, Designations & Commitments and Fund Balance; 4) Overview of the federal and State Budget discussions; 5) Economic Risks; 6) FY2019/20 General Fund Recommended Budget; 7) General Fund and Fiscal Projection; 8) Pending Issues and 9) Summary of Recommendations.

BUDGET OVERVIEW

TOTAL FINANCING REQUIREMENTS - ALL GOVERNMENTAL FUNDS

FY2019/20

FUND NAME	FY2018/19 ADOPTED BUDGET	FY2019/20 RECOMMENDED	CHANGE	% CHANGE
GENERAL FUND	$ 298,052,344	$ 290,326,192	$ (7,726,152)	(2.6%)
SPECIAL REVENUE FUNDS	$ 727,441,178	$ 761,128,158	$ 33,686,980	4.6%
CAPITAL PROJECT FUNDS	$ 28,081,506	$ 13,517,136	$ (14,564,370)	(51.9%)
DEBT SERVICE FUNDS	$ 17,184,505	$ 17,248,224	$ 63,719	0.4%
TOTAL GOVERNMENTAL FUNDS	**$ 1,070,759,533**	**$ 1,082,219,710**	**$ 11,460,177**	**1.1%**
BUDGETED POSITIONS	3,029.75	3,071.40	41.65	1.4%

The FY2019/20 Recommended Budget for Governmental Funds is balanced and totals $1,082,219,710 (*Schedules 1 and 2*). The total budget represents an increase of $11.5 million or 1.1% when compared to the FY2018/19 Adopted Budget and utilizes local, State and federal revenues, as well as the use of Fund Balances with limited draws from reserves.

The most significant budget change is reflected in the Special Revenue Funds, which increased by $33.7 million primarily due to increases in Public Safety, Health & Social Services, IHSS, Public Facilities, Road and other funds, including the addition of the Napa/Solano Area Agency on Aging. The Capital Project Funds have decreased by $14.6 million due to completion of construction of the SB 1022 Rourk Training Facility project mostly occurring in FY2018/19. The decrease in the General Fund of $7.7 million is primarily due to reduced transfers to reserves and contingencies in FY2018/19; and the reductions of the one-time funding of SB 90 claims reimbursement of $7.2 million received in FY2018/19. These decreases are partially offset by increases in appropriations in General Fund departments, primarily reflecting increased labor costs and increased General Fund contributions to Public Safety when compared to the FY2018/19 Adopted Budget. The Debt Service Funds remained substantially unchanged from the FY2018/19 Adopted Budget. Overall, the FY2019/20 Recommended Budget for All Governmental Funds increased by 1.1% when compared to the FY2018/19 Adopted Budget.

The FY2019/20 Recommended Budget uses the February 2019 Midyear Financial Report projected Fund Balances for 6/30/19 and draws down $16.9 million from various Departments committed Fund Balances to meet planned for County obligations. Consistent with sound financial practices, one-time General Fund revenues are recommended to be used to offset one-time costs wherever feasible. FY2019/20 uses some draws to fund liabilities for employee related benefits for increased PERS employer rates and to fund contributions to capital renewal reserves for the maintenance of the County buildings.

The Recommended Budget proposes a workforce of 3,071.4 FTE positions, excluding extra-help positions and a reduced vacancy rate. The recommendations reflect a net increase of 41.65 FTE from FY2018/19 Adopted Budget of which 16.9 FTE were added in FY2018/19. A net difference of 24.75 FTE total additions results from the addition of 53.25 FTE, the deletion of 26.5 vacant FTEs, and 2.0 FTE expiring limited-terms included in the FY2019/20 Recommended Budget. The year to date position changes and those recommended in the Budget reflect the continued efforts to align allocated positions throughout the County with evolving operational requirements.

The following Budget Summary narrative is accompanied by a series of budget tables that are intended to describe the budgeted expenditures and associated revenue used to fund the programs and services outlined in the respective budget units. The individual Department Recommended Budget narratives provide the following information: the purpose; function and responsibilities; significant challenges and accomplishments as identified by the Department Head; workload indicators (where pertinent and relevant); a summary of significant adjustments to the operation or budget; summary of position changes; and identification of pending issues and policy considerations as identified by the Department Head.

The following pages include a financial overview of the FY2019/20 Recommended Budget.

FINANCIAL SUMMARY

The Governmental Funds Spending Plan by Function graph portrays a total of $1.1 billion. The graph indicates the percent of the total for each of the functional areas required within the Governmental Funds part of the County Budget.

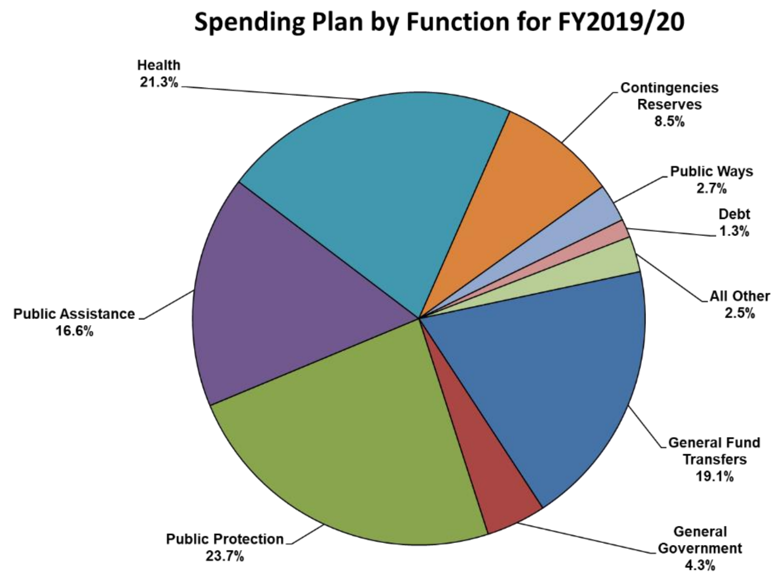
Public Protection represents the single largest category of County appropriations at 23.7% in the FY2019/20 Recommended Budget, which is in-line with the FY2018/19 Adopted Budget. Public Protection spending is projected to increase $9.6 million in FY2019/20 with the largest increases being in labor cost including wages, medical and retirement, inmate medical costs, Countywide Administrative Overhead charges, and insurance.

Public Assistance, at 16.6%, and Health, at 21.3%, represent the social safety net function of County government, which together represents an increase from FY2018/19. Health spending is projected to increase by $17.1 million in FY2019/20, primarily due to increased labor costs, contracted direct services, and transfers to reserves.

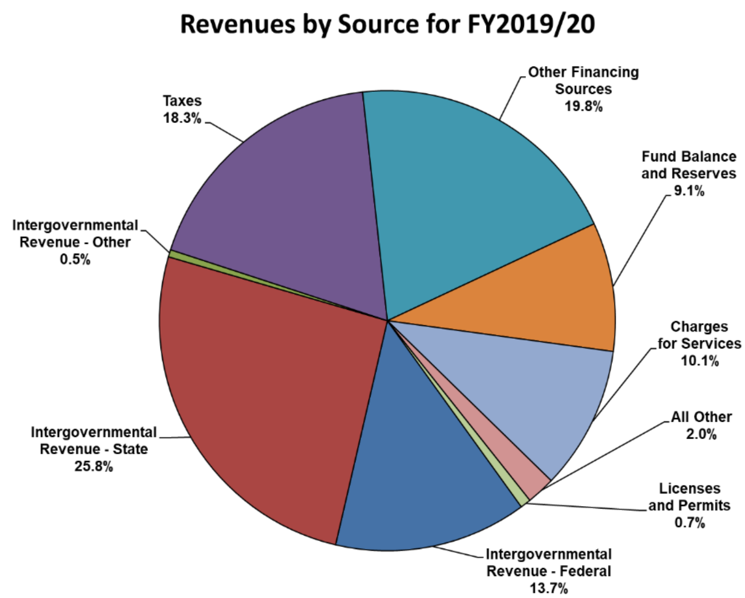
General Fund Transfers increase from a 16% share of the FY2018/19 Adopted Budget to a 19.1% share of the FY2019/20 Recommended Budget, reflecting the increases in Public Safety and Public Assistance.

The Revenues by Source graph illustrates the different sources of funding to finance the Governmental Funds Budget. The largest revenue sources are Intergovernmental Revenue from State and federal agencies, which collectively account for 39.5% of the FY2019/20 Recommended Budget and generally have specific requirements on how funding can be used. Intergovernmental Revenue from State and federal agencies increased by approximately $16.8 million primarily due to increases in Medi-Cal, other H&SS programs and Federal construction revenue in the Road Fund. Taxes represent 18.3% of the FY2019/20 revenue projections, which is up slightly from the 17% share in FY2018/19.

Other Financing Sources, which includes the transfer of funding between government budgets, represents 19.8% share of the FY2019/20 projected revenues, which is in-line with a 20% share in FY2018/19. Fund Balance and Reserves represent a 9.1% share of the FY2019/20 revenues, which is a decrease from the 11% share in FY2018/19.



GOVERNMENTAL FUNDS
Total: $1,082,219,710



The General Fund Spending Plan (*Fund 001*) graph portrays a total of $290.3 million. The Public Safety category represents the single largest category of expenditures at 43.5% in FY2019/20, which is a decrease from a 48% proportional share in FY2018/19. This category includes the Sheriff, District Attorney, Public Defender, Alternate Public Defender, Other Public Defense and Probation.

The General Government/All Other category represents a 32.2% share in FY2019/20, an increase from a 24% share in FY2018/19. Functions listed under this category include Agricultural Commissioner, Resource Management, Registrar of Voters (ROV), and General Government. FY2019/20 includes a one-time ROV vote tabulation equipment purchase.

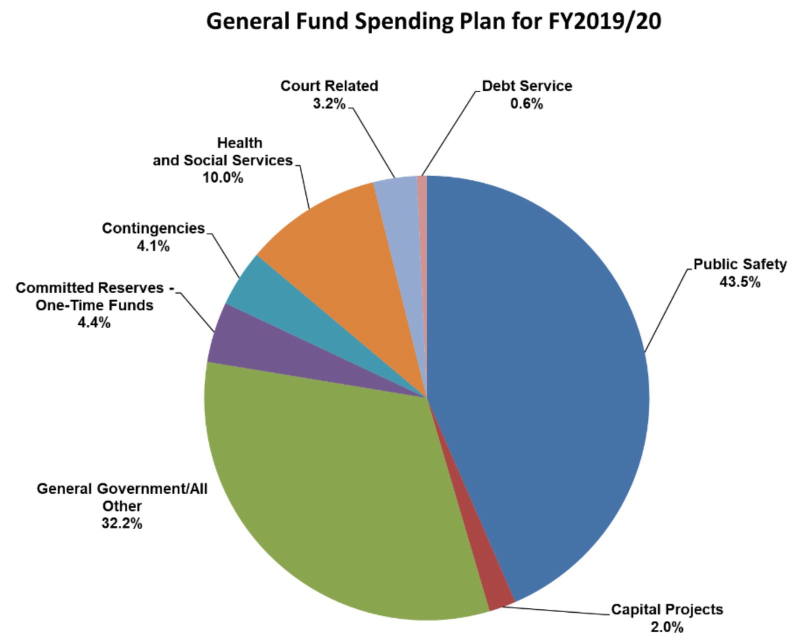
Health & Social Services is the third largest category of General Fund use at 10% of the total, which is down from 12% share in FY2018/19 which included one-time transfer of SB 90 Revenue from the State used to establish a reserve for Mental Health services and a Permanent Supportive Housing Reserve in FY2018/19. The County's Maintenance of Effort (MOE) for the Courts is 3.2% of the total.

The Recommended Budget includes $12.8 million in one-time funds allocated to committed Fund Balances to address impacts of known future obligations for retirement and capital renewal costs.

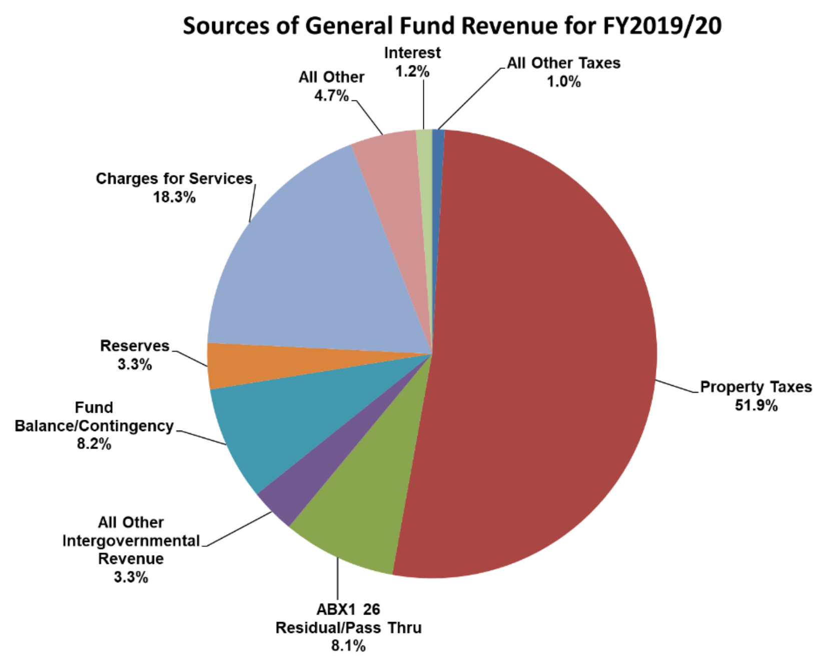
The Sources of General Fund Revenue graph provides information concerning General Fund financing for County operations.

Revenues derived from property values account for over half of General Fund revenues, with Property Taxes at 51.9% and ABX1 26 Residual and Pass-Through at 8.1%. Property taxes include secured, unsecured, supplemental, unitary, property tax in lieu of Vehicle License Fee (VLF) and property transfer tax. The FY2019/20 Recommended Budget projects a net increase of $9.4 million in these property related revenues when compared to the FY2018/19 Adopted Budget.

The second largest source of revenue is Charges for Services at 18.3%, which includes fees, permits, licenses, property tax administration fees and reimbursements for County costs of service. As shown, the third largest category is Fund Balance/Contingency at 8.2%. The General Fund projected Fund Balance at the end of FY2018/19 becomes a means of financing for the FY2019/20 Recommended Budget.



GENERAL FUND
Total: $290,326,192



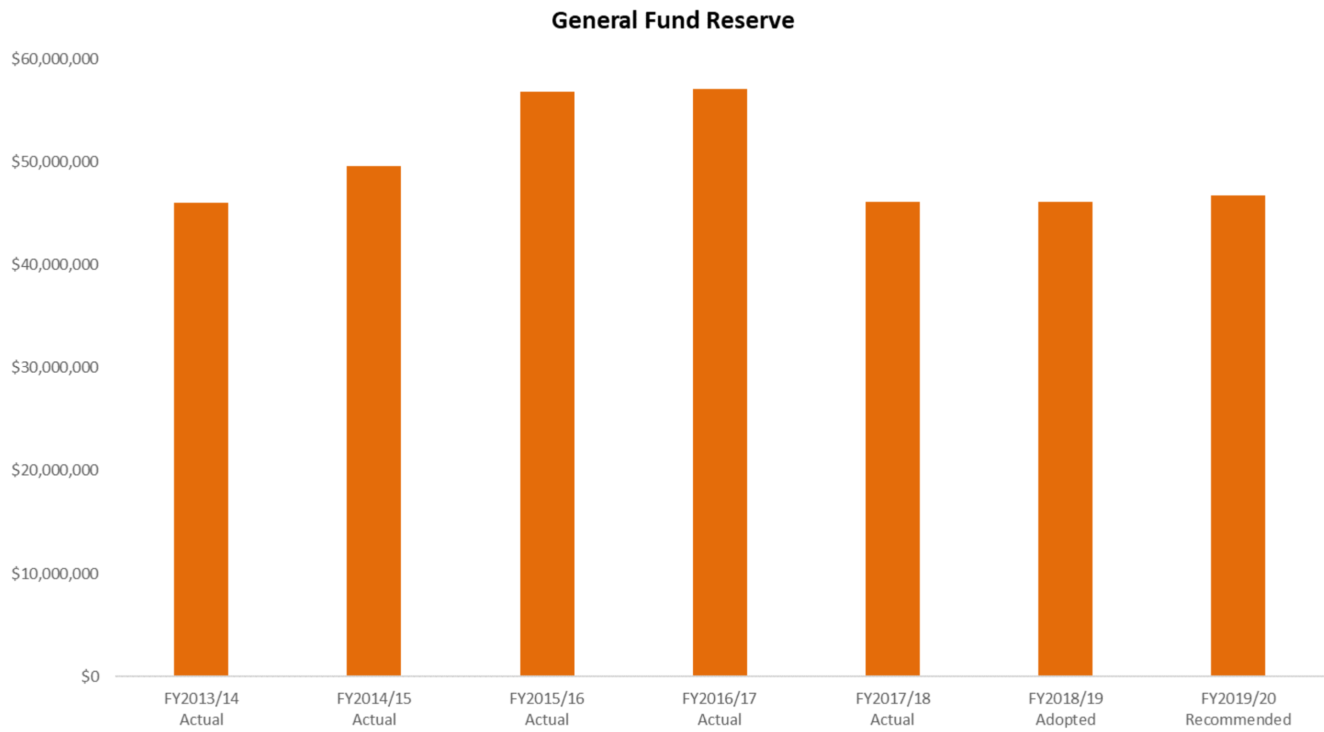
GENERAL FUND RESERVES, DESIGNATIONS & COMMITMENTS AND FUND BALANCE

The Board has a set of adopted financial policies and overarching principles intended to position the County to address the range of investments necessary to sustain and provide services. In establishing the Reserves, the County's intent is to have resources for the "rainy day" created by economic downturns, natural and manmade disasters, expected and unexpected for costs for facility repairs and insurance to draw from these resources and strategically step-down programs to align ongoing expenditures with ongoing revenues. However, in the past, the rate of decline in County revenues outpaced projections. At the same time, the State implemented changes in program responsibilities and funding in criminal justice, health care and Social Services Programs, and dissolved redevelopment agencies. These changes provided one-time revenues that augmented cost containment efforts, which allowed the County to direct resources ensure sustainable sources of funds to manage future known and unknown fiscal exposures.

In better economic times the Board consciously set monies aside to fund and finance some of the General Fund obligations, liabilities, and responsibilities. The strong fiscal policies established and maintained by the Board and the execution of those policies by the County departments continues to strengthen the County's financial position. The establishment of the General Reserve and the funding of the various General Fund designated Reserves has allowed the County to manage through the past economic downturn. A stable economy is anticipated for FY2019/20; however, a tighter hiring and labor market, increased costs of labor and goods, and a slowing growth in statewide sales tax revenues will have a financial impact on the County and further cost containment efforts may be necessary. In the following paragraphs, the unfunded obligations and potential liabilities that lie ahead are discussed in connection with the General Fund Reserves, designations and commitments, and Fund Balance.

The Fund Balance at June 30, 2019 is projected at $23.9 million, which includes $12 million for Contingencies.

On February 13, 2007, the Board adopted the General Fund Contingency policy to establish a level equal to 10% of the General Fund total budget. The current recommendation from staff for FY2019/20 is to maintain a $12 million contingency amount within the General Fund which is approximately 4.1% of Proposed General Fund Expenditures, in-line with FY2018/19. Based on the FY2019/20 Recommended Budget 10% of the General Fund would be $29 million. Appropriations for Contingencies are legal authorizations granted by the Board of Supervisors to be used for one-time unexpected needs that arise outside of the regular budget planning process. Pursuant to Government Code §29130, access to the Appropriation for Contingency requires a 4/5 vote of the Board of Supervisors.



Per Board adopted policy which is outlined in the Budget Construction and Legal Requirements section of the FY2019/20 Recommended Budget the General Fund General Reserve will be maintained at a level equal to 10% of the County's total budget excluding inter-fund transfers, with a minimum balance of $20 million at all times. This level will be maintained to provide the County with sufficient working capital and a comfortable margin to support one-time costs for the following purposes:

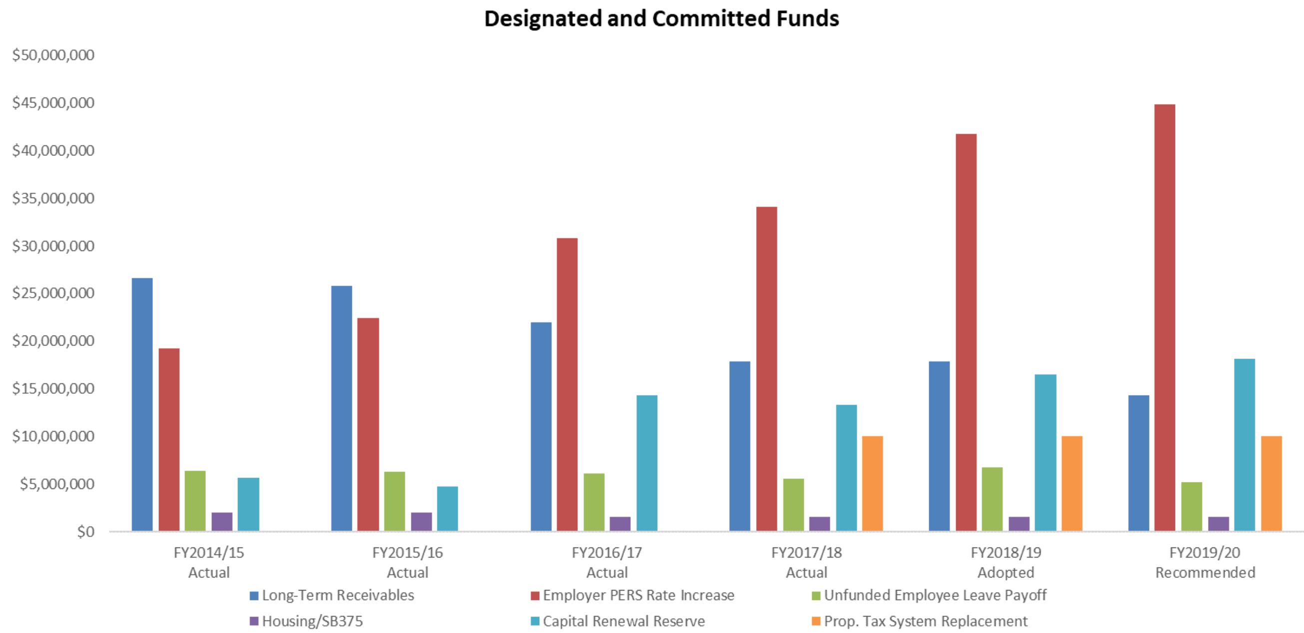
- When the County faces economic recession/ depression and the County must take budget action.
- When the County is impacted by a natural disaster or any other emergency.
- When the County experiences unexpected declines in revenues and/or when unpredicted large one-time expenditures arise.

In circumstances where the General Fund General Reserve has fallen below the established level, the County shall replenish the deficiency within five fiscal years or as soon as economic conditions allow from the following revenue sources: year-end surpluses, non-recurring revenues, or if legally permissible and with a defensible rational, from excess resources in other funds.

Subject to the Board of Supervisors' restrictions, the following will guide how the General Fund General Reserve should be used:

1. Use the General Fund General Reserve to phase into fiscal distress periods gradually, focusing on maintaining the Board's priorities.
2. To the extent possible, use the General Fund General Reserve as the last resort to balance the County Budget.
3. To the extent possible, the spending down of the General Fund General Reserve should not exceed $6 million a year (Board of Supervisors' policy direction on February 13, 2007).
4. The General Fund General Reserve should not be used to support recurring operating expenditures.
5. The General Fund General Reserve is subject to restrictions imposed by Government Code §29086, which limits the Board's access to the General Reserve during the annual budget process and requires 4/5 vote by the Board.

The FY2019/20 Recommended Budget for the General Fund General Reserve is projected at $46.8 million which reflects no change since FY2017/18. Based on Board policy the reserve target should be maintained at 10% of the County's total budget, excluding Interfund transfers, which calculates to be $87.5 million in FY2019/20. At the current reserve of $46.8 million the County has funded the General Reserve at 53% of its target goal.



Employer PERS Rate Increase – Designated Reserve

The Employer Public Employee Retirement System (PERS) Rate Increase reserve was established to address both the County's unfunded actuarial accrued liability for the Miscellaneous & Safety Retirement Plans and to position the General Fund to address the future CalPERS rate increases for retirement cost should these rates initially exceed available ongoing revenues, as a means to allow a smoother transition year over year.

Actuarial changes were adopted and implemented by CalPERS beginning in FY2015/16 through FY2019/20 (over a 5-year period) and are expected to continue to increase employer pension rates by as much as 50%. Given that pension rates were expected to increase in the next five years, coupled with a Board of Supervisors stated goal of achieving a retirement funding ratio of 90% for both CalPERS plans (Miscellaneous and Safety), the County Debt Advisory Committee reviewed options to reduce the unfunded liability in FY2014/15. On February 10, 2015, the Committee presented a funding policy to the Board that included placing one-time funds into a Pension Trust to help reduce the unfunded pension liabilities, thereby reducing future employer retirement rates. The Board approved this policy, authorized the creation of an IRS 115 Trust Account, and agreed to fund it with one-time funds in the amount of $20 million at the end of FY2014/15. As of June 30, 2017, (most recent actuarial report), the County's unfunded actuarial accrued liability for both the Miscellaneous Plan and Safety Plan is $545 million (73% Funded Ratio). This figure includes the former Court employees and County Fair employees.

In FY2017/18 and FY2018/19 the Board of Supervisors authorized additional payments of $6.6 million and $6 million respectively to the CalPERS Public Safety Plan unfunded liability account funded by the Pension Obligation Fund and the CalPERS Rate Reserve. These additional payments reduce the unfunded liability and reduce future pension costs to the County.

The FY2019/20 Recommended Budget for the Employer PERS Rate Increases includes both the value of the IRS 115 Trust at $30.9 and the Reserve for Employer PERS Rate Increase at $14 million for a total reserve of $44.9 million.

Capital Renewal Reserve (Deferred Capital/Maintenance Projects)

In 2007 the Board established a committed Fund Balance for capital renewal/deferred maintenance projects to fund deferred maintenance, unexpected maintenance and/or future maintenance of County facilities. The Board's adopted policies and strategies to address unfunded liabilities center on the need to:

- Replace infrastructure and building systems in aging County facilities where County public services are provided.
- Achieve code compliance in relation to current regulations.
- Effectively manage/reduce the County's risks associated with the programs dispensed from County-occupied buildings.

Annually, through the review and approval of the 5-Year Capital Facilities Improvement Plan (CIP), the Board reviews the status of County building infrastructure, building systems and maintenance needs. The Board weighs these exposures against available resources to determine how to budget for these facility demands.

General Services provided the Board a report titled 2016 Facilities Condition Analysis, prepared by EMG of Walnut Creek (Consultant). The report recommended an annual investment of $7.6 million to maintain County Facilities in "Very Good Condition", while a lower investment of approximately $2.8 million annually will maintain the portfolio within a "Good" range, which is the minimum maintenance level chosen by the Board in order to continue fixed asset protection, preservation and renewal and the annual budget recommendations from the County Administrator's office set aside a minimum of $2.8 million and up to $7.64 million if feasible.

In June 2019, the General Services Department will present to the Board a status update on capital projects included in the FY2019/20 Recommended Budget. Based on a preliminary prioritization of projects under consideration, the Department provided recommendations for funding specific projects, some of which will require funding from the Capital Renewal Reserve.

The reserve has a current balance of $16.3 million. It is recommended that the Board utilize $6.2 million of this balance to fund projects in FY2019/20 (see Capital Projects budget for details). In order to provide the annual funding necessary to maintain the County facilities up to $8 million in an increase to the reserve is recommended in FY2019/20 using the one-time revenues projected to be realized based on Midyear projections for 6/30/19. This contribution from FY2018/19 year-end results in the FY2019/20 Recommended Budget for Capital Renewal Reserve of $18.1 million after drawdowns recommended to address facility renewal needs.

Property Tax System Replacement

The Solano County Integrated Property System (SCIPS) is the County's current internally developed and maintained property tax system, originally developed in 1982. On April 4, 2017, the Board of Supervisors authorized staff to proceed with the replacement of the SCIPS system. The total estimated cost to replace the SCIPS system is $10 million and will be completed over multiple years. To fund the replacement system, including the data migration and full implementation the Board authorized the creation of a reserve in FY2017/18 for the project in the amount of $10 million, funded by reclassifying funds from the General Fund - General Reserve. These funds will be a loan to the project, repaid over time once the project is completed.

Unfunded Employee Accrued Leave Payoff

In accordance with the Board's Fund Balance Policy, the Board established and maintains a General Fund Reserve for Accrued Employee Leave Payoff. Each year the Auditor-Controller and Human Resources work with the County Administrator's office to assess the funds necessary to pay for any unanticipated leave payoff that departments cannot absorb with existing appropriations. Based on the County's workforce, continued utilization of the Accrued Leave Payoff funds is anticipated in FY2019/20. The FY2019/20 Recommended Budget for the Unfunded Employee Leave Payoff reserve is $5.2 million.

Long-Term Receivables

Long-Term Receivables represents amounts outstanding and payable to the County, not available as cash, which cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. It includes long-term loans and notes receivable, inventories and prepaid items. The FY2019/20 Recommended Budget for Long-Term Receivables is $14.3 million.

Housing/SB 375

Effective February 1, 2012, the redevelopment agencies (RDA) were dissolved. During the existence of the RDA, a percentage of the redevelopment funding was required to be used to meet the housing needs of low/moderate-income residents. As a result of the dissolution of the redevelopment agencies, this restricted source of funding was no longer available to address housing needs. As of February 1, 2012, any unspent housing funds in RDA's were redistributed to the local taxing agencies as one-time revenues. During this time the State passed SB 375 (Chapter 728, Statutes of 2008) which directed the California Air Resources Board to set regional targets for reducing greenhouse gas emissions. SB 375 included requirements for coordinating regional housing needs allocation with the regional transportation process. In FY2013/14 the Board approved the County Administrator's recommendation to establish the Housing/SB 375 reserve using $2 million of these one-time housing set-aside funds for SB 375 implementation and/or to address temporary and long-term housing needs for children, families, special needs clients, and older, indigent and disabled adults. In FY2019/20 Recommended Budget the current balance in the Housing/SB 375 reserve is $1.6

million. The County Administrator anticipated that some of these funds may be needed in FY2019/20 to provide local match funding to State funding proposed in the Governor's FY2019/20 Budget and would be used in partnership with cities addressing housing needs for at risk or vulnerable populations.

OVERVIEW OF THE FEDERAL AND STATE BUDGETS

Federal Budget Update

The federal shutdown that occurred in early 2019 due to the lack of an approved budget appropriation for federal programs, was the back drop for the presidents proposed 2020 budget which was released by the White House on March 21, 2019. The roughly $4.7 trillion spending plan calls for significant increased investments in defense and border security alongside steep cuts to many domestic discretionary programs.

The Administration is proposing to boost funding for the Pentagon by nearly 5%. Under the fiscal blueprint, defense spending would rise from $716 billion in the current year to $750 billion in fiscal year 2020. In addition to the proposed increases to the Department of Defense (DoD), the budgets for the Department of Homeland Security (DHS) and the Department of Veterans Affairs (DVA) would receive increases (+ 7% and 8%, respectively). As part of the DHS budget, the president is requesting $8.6 billion for construction of additional barriers along the southwest border.

The president's overall proposal calls for reducing non-defense discretionary spending from $597 billion to just $543 billion – or a 9% cut. When the proposed increase in disaster-relief funding is factored in, the total domestic spending reduction recommended by the White House would amount to a roughly 5% decrease. It should be noted that the White House proposal includes several cabinet-level departments and stand-alone agencies bearing the brunt of the administration's domestic spending cuts. The EPA – along with the Departments of Transportation (DOT), Housing and Urban Development (HUD), and Health and Human Services (HHS) – would see double-digit percentage reductions (EPA – 30%; DOT – 21%; HUD – 16%; HHS – 12%).

The president's March 2019 Budget proposal is calling for a total of $2.1 trillion in long-term cuts to mandatory safety net programs, including reductions to Medicaid and the Supplemental Nutrition Assistance Program (SNAP). In addition, the Budget is proposing to give States the option to receive foster care funding in a flexible block grant, the effect of which would be a decrease in federal investment for foster care programs.

In late April, House appropriators began the process of moving forward budget proposals for the first 2020 spending bills for the fiscal year that begins October 1, 2019. Despite not having an official discretionary spending level, three Appropriations subcommittees have approved their respective funding bills – Military Construction-Veterans Affairs (MilCon); Legislative Branch; and, Labor-Health and Human Services (HHS)-Education.

The MilCon bill, which would provide over $108 billion in discretionary funding, is approximately $10 billion more than current levels. This total includes $921 million in Overseas Contingency Operations funds, which would not count against current top-line budget caps.

The House's Labor-HHS-Education spending measure, which was approved by the Appropriations Committee on a 30-23 vote, would appropriate nearly $190 billion in discretionary funding. This would amount to an increase of $11.7 billion over the fiscal year 2019 enacted levels and $47.8 billion more than the president's budget request.

The House approved legislation rejects all of the Trump administration's budget cuts, including the proposed elimination of the Community Services Block Grant (CSBG), the Low-Income Home Energy Assistance program (LIHEAP), and the Social Services Block Grant (SSBG). The bill also includes a number of proposed spending increases, including an overall six percent boost in funding for job-training programs. Moreover, the legislation would provide large increases in child care (+45%) and Head Start (+15%). During committee consideration of the bill, Democrats added an amendment that would block the Trump administration's "refusal of care" rule, which allows health-care providers to deny service by citing religious objections. Republicans on the committee have indicated that the amendment amounts to a "poison pill" rider and will erode any potential Republican support for the bill moving forward.

Looking ahead, the House Appropriations Committee leaders are aiming to complete action on all 12 of the annual spending measures by late May, with the goal of marshaling the bills through the House by the end of June. In the Senate, Appropriations Committee Chairman Richard Shelby (R-AL) has indicated that he will not introduce any funding measure until House and Senate leaders come to an agreement on topline spending levels. Once a deal is in place, Shelby intends to bundle a few bills at a time to expedite their passage.

The follow are highlights from the federal budget:

WATER RESOURCES

Sacramento-San Joaquin Delta National Heritage Area Act

In a victory for Solano County and the Delta region at large, Congress approved during the first quarter and President Trump signed into law a measure that designates the Sacramento-San Joaquin Delta as California's first National Heritage Area (NHA). The long sought-after designation – embodied in legislation sponsored by Senators Feinstein and Harris (S 316) and Representative Garamendi (HR 357) – authorizes $1 million annually for Delta NHA activities, with the total amount not to exceed $10 million over a ten-year period. Under the new authority, funds can be used to carry out programs and projects that recognize, protect, and enhance important resource values in the Delta, including programs that develop recreational and educational opportunities.

Waters of the United States

The Environmental Protection Agency (EPA) and the U.S. Army Corps of Engineers (Corps) published in the *Federal Register* during the first quarter of 2019 a much-anticipated proposed rule that aims to redefine the scope of waterways that are regulated under the *Clean Water Act*. The agencies' proposal represents the latest step in the Trump administration's effort to replace the controversial Obama-era "Waters of the United States" (WOTUS) regulation from the previous administration. The Trump administration's proposal would limit the EPA/Corps' regulatory authority over waters that are "physically and meaningfully" connected to traditional navigable waters. Public comments on the proposed WOTUS rule were due by April 15, 2019 and actions/decisions are likely in Late 2019/early 2020.

HEALTH AND HUMAN SERVICES

TANF Reauthorization

While the Temporary Assistance for Needy Families (TANF/CalWORKs) program was fully funded for Federal year 2019 as part of the Labor-HHS Appropriations Act (PL 115-245), the program's authorization lapsed earlier this year. As a result, HHS did not have the legal authority to provide TANF payments to States. To rectify this situation, Congress approved, and President Trump signed into law the *TANF Extension Act* (PL 116-4), which will enable the Department to make payments through June 30, 2019.

On the long-term reauthorization front, Republicans on the House Ways and Means Committee reintroduced a bill in March – the *Jobs and Opportunity with Benefits and Services (JOBS) for Success Act* (HR 1753) – that would make a number of policy changes to TANF. Among other things, HR 1753 would abolish the current process for determining State and County Work Participation Rates (WPR). In its place, the measure would introduce a system that calculates WPRs based on *Workforce Innovation and Opportunity Act* (WIOA) outcome metrics.

Supplemental Nutrition Assistance Program (SNAP)

The Trump administration issued a proposed rule the first quarter of 2019, that would severely restrict the ability of States to request and receive waivers to provide SNAP benefits to single individuals in high unemployment areas for more than 90 days in any three-year period. Notably, the proposal would set a 7% unemployment rate floor. The proposal would limit the length of a State waiver to 12 months, and the waiver would only begin once it is approved. These new restrictions would further reduce the ability of States to respond quickly to economic downturns. According to USDA estimates, 755,000 individuals nationwide would lose SNAP benefits if the proposal were implemented. It would also result in a reduction of $15 billion in nutrition assistance over the next ten years. It should be noted that USDA has received over 95,000 comments on the proposed rule, one of which was authored by 100 members of Congress – including 25 California Democrats. USDA is in the process of reviewing the comments, with the Department expected to issue a final rule in the coming months.

Homelessness

In March 2019, the House of Representatives Financial Services Committee adopted a measure along party lines the *Ending Homelessness Act* (HR 1856). Authored by Committee Chairwoman Maxine Waters (D-CA), the legislation would increase funding for a number of HUD programs aimed at combatting homelessness. Specifically, the bill authorizes $5 billion over five years to create additional permanent supportive housing; increases the availability of Section 8 housing vouchers, with preferences given to persons who are at risk of becoming homeless or who are experiencing homelessness; increases funding for new rental units for extremely low-income households ($5 billion); and, authorizes $500 million over five years in competitive grants to States and localities to provide case management and social services.

Senators Dianne Feinstein (D-CA) and Lisa Murkowski (R-AK) have also introduced bipartisan legislation that would authorize $750 million annually in competitive homelessness grant funding. The bill – known as the *Fighting Homelessness Through Services and Housing Act* (S 923) – would make grants available to entities, including counties, which could invest the funds in a number of ways. Allowable uses of funds would include capital housing construction, as well as providing comprehensive services to persons at-risk of or already experiencing homelessness.

Hemp

Following passage of the 2018 Farm Bill, USDA initiated in early 2019 a process for developing a national regulatory framework for hemp. The Agricultural Marketing Service (AMS) intends to issue regulations sometime this fall in order to accommodate the 2020 planting season. For the 2019 planting season, States, tribes, and institutions of higher education can continue operating under the authorities of the 2014 Farm Bill. Finally, FDA is creating a working group that will be tasked with identifying potential legislative or alternative pathways to create a framework for allowing CBD into the food supply. The agency has also announced that it will hold a public hearing on May 31 to solicit input from stakeholders. The working group is expected to release recommendations by the summer.

Transfer of Mare Island Naval Cemetery

Representative Mike Thompson and Senator Feinstein have introduced legislation (HR 578 & S 127) designed to restore the historic Mare Island Naval Cemetery. Specifically, the bills would transfer control of the cemetery from the City of Vallejo to the Department of Veterans Affairs (VA) and place it under the purview of the VA's National Cemetery Administration (NCA). Pursuant to the legislation, the NCA would be required to maintain the cemetery as a national shrine. The VA would pay no fee to acquire the land, but it would assume the obligation of maintaining the cemetery in the future.

State Criminal Alien Assistance Program

The final fiscal year 2019 Appropriations Act included $243.5 million for the State Criminal Alien Assistance Program (SCAAP), or an increase of $3.5 million. 2019 marks the second year in a row that the program has been increased by Congress despite the Trump administration's efforts to eliminate SCAAP. For its part, Solano County most recent SCAAP allocation totals $232,217.

<u>California State Budget Update</u>

On January 10, 2019 the Governor presented his initial FY2019/20 budget plan to the Legislature including a total of $209 billion in State funds. On May 9, 2019 the Governor presented his proposed May Revision for FY2019/20. The impacts of the May Revise are still under review, additional information regarding the Governor's May Revise will be discussed in the County's FY2019/20 Supplemental Budget.

The Governor's January 2019 proposed FY2019/20 Budget includes the following highlights:

Health and Human Services

<u>Medi-Cal Coverage</u> - The Budget includes $260 million ($196.5 million General Fund) to expand full-scope Medi-Cal coverage to eligible young adults aged 19 through 25 regardless of immigration status, starting no sooner than July 1, 2019.

Mental Health

<u>Whole Person Care Pilot Programs</u> - $100 million General Fund programs focused on coordinating health, behavioral health (mental health and substance use disorders), and social services, and this funding is expected to help provide additional supportive housing for people with mental illness.

<u>No Place Like Home Program</u> - The Administration will accelerate awards and, combined with the additional tax credits and State investments included in the Budget, provide needed gap financing for developers to increase the production of affordable housing units.

Social Services

<u>Revised County IHSS Maintenance-of-Effort</u> - A new Maintenance-of-Effort (MOE) was negotiated in 2017, which reset the base for counties' share of program costs and applies an annual inflation factor to the MOE beginning in FY2018/19 under specified

conditions. The MOE provides fiscal relief to counties for IHSS program costs through a combination of General Fund offsets and temporary redirection of 1991 Realignment growth funds from County indigent health and mental health services to fund a portion of County IHSS costs. The Budget proposes to adjust the IHSS MOE inflation factor, redirect 1991 Realignment back to County indigent health and mental health services, and rebase IHSS MOE to $1.56 billion, thereby increasing General Fund costs by $241.7 million in FY2019/20. A 4-percent annual inflation factor will be applied to the MOE beginning in FY2020/21.

IHSS County Administration - The Budget includes an ongoing increase of $15.4 million General Fund for IHSS County administration to reflect revised benefit rate assumptions, for a total of $326 million General Fund for IHSS County administration.

CalWORKs Grant Increase - The Budget includes $347.6 million General Fund in 2019-20 to raise grant levels to 50 percent of the projected 2019 federal poverty level, effective October 1, 2019. Full-year costs of the proposed grant increase are estimated to be $455.4 million. As a result, the maximum grant level for an assistance unit of three will increase from $785 to $888 per month.

Home Visiting Services - The Budget includes $78.9 million to provide home visiting services to an anticipated 16,000 eligible CalWORKs families in FY2019/20. Approximately 15,000 cases are estimated to be served on an annual basis beginning in FY2020/21.

Single Allocation Methodology - The Budget includes a one-time augmentation of $93.6 million for the County single allocation.

County Indigent Health Savings - The Budget reflects $617.7 million in projected County indigent health savings in FY2019/20 to offset General Fund costs in the CalWORKs program, a decrease of $155.5 million from FY2018/19. This decrease is more than offset by additional indigent health savings (based on the latest reconciliation) of $315 million available from FY2016/17.

Safety Net Reserve Increase - The Budget increases the Safety Net Reserve Fund by $700 million, bringing the total amount in the fund to $900 million. These funds will be available for CalWORKs and Medi-Cal services and benefits during an economic downturn.

Elimination of SSI Cash-Out Policy - Last year's budget made SSI recipients eligible for federal CalFresh benefits and provided one-time funding to offset any reduction in benefits due to this policy change. The Budget includes $86.7 million General Fund in FY2019/20 and makes permanent the offset of the loss of food benefits for households that would otherwise experience a reduction resulting from the elimination of the SSI Cash-Out policy.

Continuum of Care Reform - The Budget includes $416.9 million ($301.7 million General Fund) to continue implementation of CCR. This funding reflects ongoing support for child and family teams, approval of resource families, and continued emphasis of home-based, family care placements with supportive services rather than group home care placements for children in foster care.

California Statewide Automated Welfare System (CalSAWS) - As a condition of federal financial participation, the federal government requires the State to create a single SAWS by 2023. The current SAWS consist of three separate County administered systems: The Consortium-IV system, the Los Angeles County LEADER Replacement System, and the CalWORKs Information Network system. The State will integrate all three into one system, known as CalSAWS. The Budget includes $148.2 million ($31.2 million General Fund) in FY2019/20 to design, develop, and implement CalSAWS.

Incompetent to Stand Trial - $18.6 million General Fund and 119.3 positions for the second phase of the Metropolitan State Hospital's secured treatment area expansion. When completed in 2019, it will provide a total of 236 additional secured forensic beds for the treatment of ISTs at the Metropolitan State Hospital. Furthermore, the Budget includes $12.3 million General Fund to allow the Department to contract for up to 74 additional jail-based competency restoration treatment beds through the County jail treatment programs. These efforts are intended to reduce the pending placement time for ISTs and the waitlist.

Disaster Assistance and Recovery

Mutual Aid System - $25 million General Fund ongoing for prepositioning of existing OES and local government resources that are part of the statewide mutual aid system with the goal of enhancing disaster response readiness. Prepositioning occurs in areas of identified potential fire threat, which is determined through various means such as weather modeling, high wind zones, low humidity, and dense fire load. The prepositioned resources include, but are not limited to, fire engines, trucks, personnel, and strike teams.

Public Education - $50 million General Fund one-time in FY2018/19 to immediately begin a comprehensive, statewide education campaign on disaster preparedness and safety. This effort will focus on community engagement and public education in high-risk areas with an emphasis on public health and safety and will make local grants available to address local and regional needs.

California Disaster Assistance Act (CDAA) - $20 million General Fund one-time to increase the amount of funding available through CDAA, which is used to repair, restore, or replace public real property damaged or destroyed by a disaster, and to reimburse local government costs associated with certain emergency activities undertaken in response to a state of emergency. This augmentation increases total CDAA funding to $82.6 million in FY2019/20.

Child Support

The State budget proposes an additional $56 million ($36.9 million federal funds and $19.1 million General Fund) for Local Child Support Agency administrative costs. This increase represents the first year of a three-year, phased-in implementation of a new budgeting methodology. These resources create more equitable funding across all local agencies, reducing geographic disparities in funding for child support case management.

Homelessness

- The January 2019 Governor's budget includes $500 million in grants for cities and counties that work together in regional partnerships, similar to HEAP. Only plans that come with regional buy-in will be considered. $300 million to fund regional plans, navigation centers, and homeless shelters. $100 million is reserved for the 11 largest cities. $200 million for "federally designated areas." (*this definition will need further clarity). The Governor says he wants to see real plans in order to get the money.
- $200 million general purpose grants that would be awarded to cities that meet milestones for developing navigation centers and shelters.
- $25 million in ongoing funding for SSI advocacy.
- $100 million to extend the whole person care pilot programs.
- The budget also proposes to expedite the No Place Like Home funding allocations.

Housing

- $500 million in subsidies for the "missing middle" housing through an expansion of the State low-income housing tax credit.
- $750 million for a one-time pot to jump start housing across all income levels.
- $250 million in technical assistance for cities to hire planners, CEQA lawyers, etc.
- $500 million in general purpose grants for cities that meet certain housing development goals.
- Use existing economic development tools--eliminate 55% voter approval for enhanced infrastructure financing districts to issue debt, align State tax incentives with federal Opportunity Zones for affordable housing and green tech.

The Census

The proposed budget includes an additional $50 million for statewide outreach efforts related to increasing the participation rate of Californians in the 2020 census, bringing the total funding available to $140.3 million. This effort will span multiple years, be conducted in multiple languages, and implement specific strategies to obtain a complete and accurate count of all California residents.

Local Streets and Roads

The Budget provides approximately $1.1 billion in Road Maintenance and Rehabilitation Account funding to cities and counties for road repairs and will provide a similar amount for the State highway system. Additionally, the State Transportation Improvement Program (STIP) is pegged to receive an estimated $567 million in FY2019/20 (local streets and roads receive the same amount).

Removal of Voter Approval for EIFDs

An Enhanced Infrastructure Financing District (EIFD) is a governmental entity established by a city or a County that carries out a plan within a defined area (boundaries of which do not need to be contiguous) to construct, improve and rehabilitate infrastructure, including transportation and housing. EIFDs can be created by cities or counties without voter approval and expend tax increment revenues without voter approval. However, an EIFD must receive 55-percent voter approval to issue debt. The Governor's Budget proposes removing the voter-threshold for issuing debt as part of the housing strategies in his Budget proposal.

Water

Safe Drinking Water Projects - $168.5 million in Proposition 68 funds for the State Water Resources Control Board to provide technical assistance, grants, and loans to public water systems in disadvantaged communities for infrastructure improvements to meet safe and affordable drinking water standards, including both drinking water and wastewater treatment projects.

Emergency Water Supplies - $10 million General Fund for the State Water Resources Control Board to address safe drinking water emergencies in disadvantaged communities, such as provision of interim alternate water supplies, including bottled or hauled water, and emergency improvements or repairs to existing water systems, such as well rehabilitation or replacement, extension of service, consolidation projects, or treatment systems.

Technical Assistance - $10 million General Fund for the State Water Resources Control Board to contract with, or provide grants to, an administrator to provide administrative, technical, operational, or managerial services to a designated water system to achieve compliance with current drinking water standards. Technical assistance could also include the development of a community-based needs assessment and preparation of grant applications for capital projects.

Safe and Affordable Drinking Water Fund - The Budget proposes to establish a new special fund, with a dedicated funding source from new water, fertilizer, and dairy fees, to enable the State Water Resources Control Board to assist communities, particularly disadvantaged communities, in paying for the short-term and long-term costs of obtaining access to safe and affordable drinking water.

ECONOMIC RISKS

Nationally

Based on information compiled in *The Budget and Economic Outlook: 2019 to 2029* published by the Congressional Budget Office in January of 2019, despite a growing economy and low unemployment, Federal budget deficits are projected to climb from $900 billion in 2019 to over $1.4 trillion in 2029 in part due to the Trump Tax reduction plan approved in late 2018 and little or no federal spending cuts being enacted by Congress in 2019. The Federal Reserve has indicated that it may not raise its "federal funds" benchmark interest this year which suggests that the Federal Reserve does not anticipate pressure from wages, housing prices and consumer prices enough to warrant additional rate increases. The average interest rate on a 30-year fixed mortgage could hit 4.8% by late 2019, but should not impact housing prices, or further strain housing affordability for many Americans. The 10-year U.S. Treasury Bond will likely hit 4% by late 2019, up from an average of 2.4% in late 2017 and 3% in 2018. It is anticipated that U.S. workers' wages and consumer-cost inflation will both rise together with wage increases expected to be 3% and the consumer-cost inflation rate rising and stabilizing at 2.5%. This will mark continued U.S. consumer spending growth in the 2.5 to 3% annual range, however continued slowing of automobile sales business will cause some reductions in percentages towards the end of 2019. U.S. homebuilding will continue its slow-growth trajectory with 1.3 million housing units to be built in 2019. This is much higher than the 600,000 per year experienced during the depths of the Great Recession, but below the number of units during the housing boom period of 2001 - 2007. Unemployment will remain historically low at 3.8% nationally, but some indicators point to unemployment rising to 4.2% by end of 2019. Continued uncertainty from U.S./China trade negotiations coupled with the Federal Reserve's use of "quantitative tightening" to reduce its balance sheet pose potential risks to U.S. economic stability and growth. The stock market and import/export trade are having mixed reactions as to Trump Administration continues to push tariffs on China and other parts of the world.

California

Even with the nation's economic recovery approaching its 10th year - almost the longest on record - and short-term revenues increasing, California faces continued uncertainty from Washington and around the world. Accordingly, Governor Gavin Newsom's budget proposals allocate $15 billion to build budgetary resiliency and pay down the State's unfunded liabilities, $1.4 billion higher than proposed in January. California's job base and personal incomes will continue their modest expansion. "Hot sectors" include construction, health/education services, information and technology, warehousing and logistics, State/local government, and professional/business services. California's housing affordability continues to be a challenging factor for the economy as jobs go unfilled due to worker mobility and living costs. Permits pulled by home builders will rise slightly over the next two years, but the increase will be far from what's needed to bring a sufficient number of homes onto the market to meet an immense backlog of demand statewide. California's annual population growth is projected to grow as a more modest rate when compared to prior decades. With just above 0.5 percent annually to 2020, adding 700,000 residents and pushing the State's population from 39.7 million to 40.4 million. Today, California's economy in relation to the United States is surprisingly in the same position it was in 2007—although macro trends mask a number of structural changes, sharp swings in employment trends point to California's shedding of lower-paying manufacturing jobs while adding higher-paying jobs in information services over the long term. With this shift in job types, it will be increasingly difficult for California's manufacturing industry to compete against lower-cost regions in the United States.

Staff will continue to monitor State and federal budget and economic developments in light of managing the County's budget and recommend changes if known as part of the Supplemental Budget for FY2019/20 or return at a later time if more is known.

FY2019/20 GENERAL FUND RECOMMENDED BUDGET

The County's FY2019/20 Recommended Budget for the General Fund of $290.3 million is balanced with revenues of $256.8 million, drawdowns from committed Fund Balances of $6.2 million for Capital Renewal Reserve, $1.5 million for Accrued Leave Pay Off, $2 million for PERS Rate Reserve and use of Fund Balance ($23.9 million).

The Recommended Budget for General Fund reflects revenues of $256.8 million an increase of $8.5 million excluding reserves when compared to the FY2018/19 Adopted Budget of $248.3 million. The increase in revenues is attributed to an anticipated net increase in Tax Revenues, including taxes driven by the increased value in assessed roll, and local sales and use taxes and other tax revenue totaling $9.8 million primarily due to improved property values and an increase of $5.9 million primarily for charges for services for administration overhead, various permits and services, intergovernmental revenues and interest income, offset by a decrease of the one-time $7.2 million revenue received for prior year SB 90 claims paid by the State FY2018/19.

The Recommended Budget for the General Fund reflects appropriations of $265.5 million an increase of $6.3 million excluding transfers to reserves and contingencies when compared to the FY2018/19 Adopted budget of $259.2 million. The increases in appropriations is attributed to increases in General Fund departments of $1.6 million in labor costs and $5.8 million in services, supplies, other charges and fixed assets, and net increases in General Fund contributions to other funds of $6.1 million primarily due increasing costs in Public Safety and Health and Social Services IHSS when compared to the FY2018/19 Adopted Budget excluding the decrease in appropriations of $7.2 million due to the one-time SB 90 claims reimbursement appropriated in FY2018/19.

GENERAL FUND FISCAL PROJECTIONS

Solano County uses Fiscal Projections to provide insight into future trends for General Fund Revenues and Expenditures. Doing so allows the County to work proactively with departments to address potential program impacts in future years.

The fiscal projections shown in the table that follows reflect the FY2018/19 Midyear projections for comparison only. Using the FY2019/20 Recommended Budget as the starting point, revenues and expenditures are forecast through FY2021/22. While projections beyond 2022 are possible, it is more difficult to provide a meaningful longer forecast in light of the changing economic dynamics, an uncertain Federal Budget, and changes in State mandated programs.

Solano County
General Fund - Fiscal Projection
FY2019/20 Recommended Budget
(in million of dollars)

		Midyear Projection For 6/30/19	Recommended Budget FY2019/20	Projected Budget FY2020/21	Projected Budget FY2021/22
a	**General Fund, Beginning Balance**	$ 34.97	$ 23.86	$ 11.99	$ 14.32
	TO Reserves:				
	General Reserves				
	Unfunded Employee Leave Payoff	(1.136)			
	Capital Renewal Reserve	(8.000)	(8.000)		
	Employer CalPERS Rate Increases	(7.674)	(4.786)		
	PARS 115 Trust	(10.000)			
b	Subtotal - TO Reserves	(26.810)	(12.786)	0.000	0.000
	FROM Reserves:				
	General Reserves				
	Unfunded Employee Leave Payoff		1.500	0.800	0.800
	Capital Renewal Reserve	5.015	6.178	4.000	4.000
	Employer CalPERS Rate Increases	10.000	2.000	4.000	4.000
	Encumbrances	0.275			
c	Subtotal - FROM Reserves	15.290	9.678	8.800	8.800
d	**Net Increase (Decrease) in Funding Sources: (b+c)**	(11.520)	(3.108)	8.800	8.800
e	**TOTAL AVAILABLE FINANCING (a+d)**	23.450	20.747	20.794	23.123
f	Operating Expenditures (excluding Contingencies/transfers to Reserves)	253.721	265.540	268.584	277.273
g	Contingencies	0.000	12.000	12.000	12.000
h	**Total Operating Expenditures**	253.721	277.540	280.584	289.273
i	Operating Revenues (excluding transfers from Reserves)	252.636	256.787	262.113	269.229
j	Operating Expenditures (excluding Contingencies/transfers to Reserves)	253.721	265.540	268.584	277.273
k	**Net operating Revenues over (under) Expenditures [known as Operational Deficit] (i-j)**	$ (1.085)	$ (8.753)	$ (6.471)	$ (8.044)

***** General Fund, Beginning Balance in FY2019/20 includes estimated additional savings from County Departments as projected at Midyear. FY2020/21 and FY2021/22 are anticipated to be higher than shown in chart above based on historical trends in savings realized in departments. Contributions to Reserves are not included in FY2020/21 and beyond.

Revenue Assumptions - From General Revenue Projections:

The County's General Fund Budget is financed with General Revenues (refer to BU 1101), the use of certain one-time revenues, Fund Balance, and General Reserves, if necessary. The FY2019/20 Recommended Budget includes the use of General Fund – Committed Fund Balances of $6.2 million from Capital Renewal, $2 million from Employer CalPERS Rate Increase and $1.5 million from Unfunded Employee Leave Payoff.

The significant Revenue Assumptions from the General Revenues budget include:

- An estimated 3.75% increase in assessed values from the FY2018/19 corrected assessment roll, the following increases are projected: $4.6 million in Current Secured Property Taxes, $2.9 million Taxes in Lieu revenues, $1.1 million in ABX1 26 Pass Through and $0.7 million increase in ABX1 26 Residual Revenue. It is anticipated assessed values will increase 4% in FY2020/21 and FY2021/22 as Solano County continues to recover from the Great Recession and subsequent local housing market collapse. (It should be noted we have not anticipated significant growth in new housing starts or the full elimination of the remaining 11,120 properties still in Prop 8 on July 1, 2018 Tax Reduction status, but rather similar modest housing growth in FY2020/21 and gradual housing price recovery to inform our 4% year to year growth, which is reflective of the past few years actual experience.)

- Current Unsecured Property Taxes projected to remain flat in FY2019/20 and increase by 1% per year in FY2020/21 and FY2021/22 as there are a number of appeals from large businesses that may impact these projected revenues.

In addition to General Revenues, the County Budget is financed by Proposition 172 revenues (sales tax) for Public Safety and 1991/2011 Realignment funds (State sales tax and vehicle license fees) primarily for Health and Social Services (H&SS) and Public Safety departments, State and federal funding, and Fees for Services. While these revenues do not flow directly into the General Fund, they indirectly impact the General Fund.

  - The Recommended Budget for FY2019/20 reflects $39.3 million in Proposition 172 funding, an increase of $1.8 million. As Proposition 172 funds increase for the County, then the General Fund contribution to the Public Safety Fund Departments may be reduced correspondingly.
  - The Recommended Budget for FY2019/20 reflects $70.3 million drawdown in 1991 State – Local Realignment revenues, an increase of $5.5 million; and $41.5 million in 2011 Realignment funds, an increase of $3.4 million. If federal and State revenues come in higher than anticipated, then General Fund Contribution may be reduced as long as the County's Maintenance of Effort is met. If federal and State revenues are lower than anticipated, then the demand for General Fund increases.

Expenditure Assumptions:

- As previously discussed, retirement costs are projected to continue to increase based on approved CalPERS actuarial assumptions for the proposed rates by CalPERS. Included is a rate of 25.271% for Miscellaneous and 32.550% for Safety in FY2019/20.
- Health insurance costs are projected to increase 5.5% per year based on past rate history for FY2019/20, with 5-7% annual increases likely in future years.
- The County General Fund Contribution through FY2019/20 are listed below:
  - General Fund support for Public Safety is projected to increase from $120.1 million to $126.3 million; a $6.2 million net increase. This increase is primarily due to Salaries and Employee Benefit increases, increases in insurance, inmate medical costs and Countywide Administrative Overhead costs.
  - General Fund support for H&SS and IHSS Public Authority is projected to decrease from $32.6 million to $29 million; a $3.6 million decrease. This primarily represents decreases of $4 million due to the one-time transfer of SB 90 Revenue from the State, which was used to establish a Mental Health Reserve and a Permanent Supportive Housing Reserve in FY2018/19. Additionally, the General Fund support decreased due to the payoff of the 2009 Certificates of Participation, representing the debt service used to acquire undeveloped land to construct the H&SS Administration Building and decreases in Assistance programs. These decreases are offset by an increase in General Fund costs for IHSS resulting from the 7% inflation factor applied to the IHSS Maintenance of Effort (MOE) and increases in Social Services programs.
- The FY2019/20 Recommended Budget includes a Contingency appropriation of $12 million.

General Fund Deficit Reduction Strategies for FY2019/20 if Revenue Shortfall:

The Department Heads and the CAO will continue to utilize the Board adopted Budget Strategies to guide the Departments in their continuing efforts to contain costs and where possible reduce further and serve as guidelines <u>if revenues do not materialize as anticipated</u>.

Strategy 1: *Elimination or freezing of all vacant positions and only fill positions that are "Mission Critical" to the organization*

Strategy 2: *Continue to review all discretionary and mandatory programs*

Strategy 3: *Seek employee concessions, in addition to the current MOUs and agreements in place or in progress*

Strategy 4: *Reduce General Fund Contribution to Health & Social Services and Public Safety departments, reducing the level of service to the community*

Strategy 5: *Continue reducing the County's footprint in buildings in Fairfield, Vallejo and Vacaville, and move employees out of leased space in County-owned space; consider selling older/outdated County buildings to reduce operational expenses*

Strategy 6: *Continue automating the delivery of services so reorganization/downsizing opportunities can continue*

PENDING ISSUES

Supplemental Budget: The Recommended Budget document was prepared early in the month of May to facilitate a May release and longer review period prior to Budget Hearings in June. To accommodate the earlier release, the departmental budgets reflect only the known and approved State and federal programs changes as of April 2019, which will take effect July 1, 2019.

Historically, the County Administrator's Office prepares a Supplemental Budget document following the completion and distribution of the Recommended Budget, as more of an administrative function, primarily to address accounting notations. To the degree possible, the Supplemental Budget may reflect additional program and service changes including possible reductions that can be expected based on the Governor's May Revision and ultimately approved legislation including budget Trailer Bills.

Behavioral Health: It remains particularly important for Behavioral Health services to provide care collaboratively with other healthcare providers and County Departments, including the Sheriff, Probation, Public Defender, District Attorney, and the Superior Court. The Division is anticipating significant impact as a result of the new diversion law, AB 1810, which authorizes the Court to consider diversion to mental health treatment as opposed to criminal prosecution when an untreated mental health condition significantly contributed to the commission of the crime. Limited, one-time grant funding for a 3-year period was set aside by the Department of State Hospitals to assist counties in the implementation of a felony diversion program; however, no additional funding was provided for a broader diversion population. The felony diversion grant funding services clients that are the responsibility of the State not the County. The Division is anticipating applying for grants to provide mental health services as well as housing in order to create and sustain a diversion program. In the interim, diversion referrals are being assessed for the appropriateness of existing service programs. Recent adoption of Laura's Law, civil court-assisted outpatient treatment, may also have an impact on existing service capacity

Substance Abuse Services: The County's access to substance abuse treatment residential beds continues to be negatively impacted by surrounding financially larger counties paying more than double Solano's daily bed rate due to their implementation of the Drug Medi-Cal waiver, Organized Delivery System (ODS) which generates federal funding for residential services. The Behavioral Health Division continues to discuss the fiscal details related to implementation of the Drug Medi-Cal Waiver option with Partnership Health Plan. The fiscal impact for the County remains unknown.

Continuum of Care Reform Act (CCR) – State Mandate: Continuum of Care Reform (CCR) continues to influence the way that counties deliver mental health services to Child Welfare Services (CWS) youth and other high-risk youth. A major aspect of CCR implementation is the focused effort to reduce placement into congregate care settings; group homes are expected to close if they do not successfully convert to a treatment facility model, Short Term Residential Treatment Program (STRTP), where youth are expected to be in a settling that is not a home for no more than 6 months. Counties and local group homes are struggling to meet all of the obligations to convert to the new model. If facilities become licensed as STRTP, Solano County will be required to enter into contracts with these agencies to provide mental health services competing for the limited MHSA and mental health funding available.

Also related to CCR, Presumptive Transfer (PT) is a complex County to County process with both financial and service delivery implications. It requires that when CWS or Probation agencies place youth in a care facility or foster home in another County, that the mental health services are transferred to the new County of residence. This requires that the local MHP coordinate with all placing agencies and provide necessary services; the financial obligations of the placing agency are expected to involve a transfer of funds, but this process has not been fully defined by the State and Solano County has received transfer from 18 counties across the State, most frequently from Contra Costa, Napa, and Alameda. These transfers will include a pending cost settlement with the original counties of jurisdiction.

Included in CCR is the State and federal approval requirement to allow for foster parents to bill Medi-Cal for services they deliver to their foster youth, referred to as Treatment Foster Care (TFC). To be eligible, the foster parent(s) must be trained and supervised by the local Foster Family Agency (FFA). This adds additional oversight demands on the Division to provide the necessary oversight to FFAs which is an additional unfunded, intensive service mandate. While most foster parents are not interested in participating because of the onerous requirements, the MHP is required to offer this service.

Affordable Care Act (ACA): The ACA under the current federal administration has so far withstood several repeal attempts. Through ACA, counties' costs of serving the indigent population decreased as many formerly uninsured individuals obtained health coverage through the Medicaid expansion implemented under the ACA. In June 2013, the State signed into law AB 85 (See glossary for definition) which provided a mechanism for the State to redirect counties' 1991 Public Health Realignment funding previously dedicated to pay for indigent healthcare costs to fund social services programs, specifically the CalWORKs grant increases. For Solano County, the amount redirected each year is $6.9 million. In the meantime, counties remain responsible for providing healthcare to the indigent population under W&I Code section 17000. As the ACA is nearing its ten-year anniversary, and a legal case coming out of Texas challenging pieces of the program is headed to the Supreme court in FY2019/20. It should therefore be noted that with California having implemented the expanded Medicaid program under ACA any successful attempt to repeal the ACA would have drastic impacts across the healthcare spectrum. Specifically, for the County health centers, a repeal of the Medicaid expansion under ACA would significantly increase counties' indigent healthcare costs, leaving counties with no dedicated funding stream if the Governor also unfunds CMSP, as her proposed for FY2019/20. Public Health programs could also be affected if the ACA Prevention and Public Health Fund is either cut or redirected, as these dollars are used to fund numerous programs at the Centers for Disease Control and Prevention, including funds directed to the State and local levels for immunizations, Tuberculosis control and other Communicable Disease programs.

Supplemental Security Income (SSI) Cash Out: Assembly Bill 1811, the FY2018/19 Human Services Omnibus Trailer Bill, reverses the CalFresh eligibility policy known as "cash-out" under which Supplemental Security Income (SSI)/State Supplemental Payment (SSP) recipients are ineligible for CalFresh. In addition, AB 1811 creates the SSI/SSP Cash-In Supplemental Nutrition Benefit (SNB) Program and the SSI/SSP Cash In Transitional Nutrition Benefit (TNB) Program and augments the grant amount for the Cash Assistance Program for Immigrants (CAPI). Beginning June 1, 2019 individuals receiving or authorized to receive SSI/SSP are eligible for CalFresh, provided all other eligibility criteria are met. Additionally, at that time, current CalFresh households negatively affected by the policy change may be eligible for SNB and TNB Program benefits. Statewide, this change is expected to impact approximately 370,000 individuals, and locally in Solano County it is estimated to impact an estimated 4,600 individuals.

In-Home Supportive Services: The Governor's January Proposed Budget included changes to the IHSS MOE structure based on recommendations contained in the SB 90 1991 Realignment Report presented by the Department of Finance to the State legislature in January 2019. The following methodology changes are included in the recommendations:

- Rebase the IHSS MOE in FY2019/20 to $1.56 billion. For reference, the final IHSS MOE for FY2017/18 was $1.66 million (before State General Fund offsets) and the inflation factor for FY2018/19 is 5%, bringing the FY2018/19 IHSS MOE to $1.74 million without any individual counties' wage/benefit adjustments.
- Reduce the inflation factor in FY2020/21 to 4% from 7% (current law).
- Cease the redirection of 1991 Realignment Vehicle License Fee (VLF) growth revenues from Health and Mental Health subaccounts to Social Services beginning FY2019/20.
- Cease acceleration of payment of Social Services 1991 Realignment sales tax growth revenues beginning FY2019/20 and return to the original methodology for calculating caseload growth for IHSS (comparison to prior years).
- Eliminate growth allocations to the CMSP Board beginning in FY2019/20 until the Board's operating reserves fall below three months. Note that this proposal eliminates both sales tax and VLF growth revenues to CMSP.

If the IHSS MOE methodology is modified by the State Legislature as part of FY2019/20 State budget approval process, the County IHSS MOE amount will be recalculated.

2011 Public Safety Realignment/AB 109 Funding: The Recommended Budget reflects the County's share of the estimated total AB 109 base and growth funding allocations statewide. The budget recommended by the Solano Community Corrections Partnership (CCP) includes the continued use of one-time carry forward funding from prior years' unspent allocations to fund these programs previously approved by the Board under the 2011 Solano Public Safety Realignment Act Implementation Plan. AB 109 Growth funding, which is based on statewide revenue estimates is subject to change pending the final State revenue figures. County staff is continuing to monitor the State allocation of AB 109 funds as departments address the mandated changes resulting from the implementation of 2011 Public Safety Realignment. While one-time carry forward funds will provide necessary funding for FY2019/20, the continued use of unspent carryforward to balance the budget in future years is unsustainable. In an effort to align appropriations for programs and services with ongoing revenues, affected County departments continue to identify budget reductions and monitor annual revenue allocations. Further adjustments may have to be made to this budget in FY2019/20 based on actual FY2018/19 year-end figures and funding included in the State's Adopted FY2019/20 Budget.

California Money Bail Reform Act of 2017 (SB 10): SB 10 would eliminate money bail and instead rely on a pretrial assessment tool to determine if a felony defendant must be detained as a safety or flight risk or released back into the community pending trial. Persons charged with a misdemeanor would be booked and released within 12 hours without a pre-trial assessment. However, a prosecuting attorney could file a motion seeking the pretrial detention of a person in certain circumstances, including when the person has been charged with a capital crime. The bill would require the courts to establish these pretrial assessment services and would authorize the services to be performed by court employees or through a contract with a local public agency, with the most likely provider being the County Probation Department. SB 10 passed the legislature and was signed into law in 2018, but an opposition referendum in 2018 has made the issue eligible for the 2020 ballot to determine whether the law will be upheld by the voters. If upheld, it could impact County departments in several ways:

- *Sheriff's Office* - It is possible that SB 10 could reduce the average daily inmate population at the jails as many offenders typically remain incarcerated until their case is adjudicated because they cannot afford bail. In addition, those accused of a misdemeanor would be released. However, it is possible that the jail population could increase as those who would have been released pending trial under the bail system may now be detained because of a pretrial assessment of risk.
- *District Attorney's Office* - Prosecuting attorneys may file a motion seeking detention of the defendant which would require a hearing except in the unlikely event that the defendant waives their right to a hearing. Depending on the nature of future crimes, the number of motions and hearings for pretrial detention could increase.
- *Probation* - As the likely local public agency to conduct pretrial assessment, SB 10 would likely increase the number of adults who are referred and served in the Pretrial services program.

While the future of SB 10 is pending, a legal challenge is on appeal with the Supreme Court of California (Humphrey on H.C., S247278) and may have a significant impact on the bail system, SB 10 notwithstanding. The case, based on a decision from the First District Court of Appeal in San Francisco, will require the Court to consider specific questions related to pretrial detention: 1) whether the appellate court was mistaken in its determination that a defendant's ability to pay bail should be taken into consideration for due process and equal protection; 2) whether a judge can consider public safety in setting the amount of bail; and 3) whether the State Constitution allows bail to be denied altogether in a non-capital case. Should the Supreme Court uphold the First District's decision, the demand for pretrial supervision will increase even if SB 10 is not upheld and it is therefore also unclear how jail populations could in impacted.

AB 1810: AB 1810 provides a mechanism for defendants who are accused of crimes (excluding certain violent crimes) where a mental disorder played a significant role in the commission of the crime to be diverted from jail and instead receive mental health treatment. Diversion may last up to two years, and upon completion, the charges may be dismissed. Challenges facing the County are adequate resources to provide the mental health services expected in a diversion setting. It may increase the number of court motions filed and hearings set by the District Attorney's Office in cases where participation in the diversion program would present a threat to public safety.

Property Tax Appeals/Prop 8 Values: As of May 10, 2019, there are 454 active property tax appeals on file with the Clerk of the Board representing $6.3 billion (cumulative over 8 years) in assessed value "at risk". The final resolution of these appeals may have a significant impact on the County's property tax revenues in the future. Efforts continue by the Assessor, with assistance from County Counsel, to address and resolve appeals and reduce the number and value of outstanding appeals to address the uncertainty.

The recovering residential real estate market results in a decrease in the number of properties on Proposition 8 status (a temporary reduction in property values below their established Proposition 13 base year value). According to the Solano County Assessor-Recorder's Office, as of June 30, 2018, 11,120 parcels remain on Proposition 8 status, compared to 78,000 parcels in 2012. The County continues to have some residential neighborhoods that have not fully recovered their peak values from 2007.

Capital Renewal and Major Maintenance – County Roads and Bridges: As required by law, the Board adopted a 5-Year Capital Investment Plan for Roads and Bridges on February 5, 2019 which shows an estimated $98 million in improvements over the next 5 years and $23 million in unfunded road maintenance and bridge replacement projects. The Board's existing policy has been for the County to secure State and Federal funds for large projects, such as bridge replacements and major road reconstruction, and to use the local Road Fund to provide for all other required maintenance. As State and Federal funding for this area of responsibility shrinks in the near term, other options and further consideration regarding adequate sustaining maintenance on Roads and Bridges will be necessary. (Refer to Public Ways budget)

Transportation Funding SB-1-2017: In 2017 the Road Repair and Accountability Act (SB 1) increased several transportation related taxes and fees to improve the condition of California's roads. This new transportation funding bill doubled the County's gas tax revenues in FY2018/19 and will provide almost $2 million additional revenue in FY2019/20. Last year a ballot measure to repeal the new gas tax (Proposition 6) was included in the November 2018 statewide election. Proposition 6 did not pass, only receiving 43% of votes. With 57% of voters choosing not to repeal the gas tax, the future of SB 1 revenue appeared to be secure. However, the Governor's recent proposal to potentially tie city and County formula funds from SB 1's Road Maintenance and Rehabilitation Account to housing development could affect future transportation funding if this proposal becomes legislation.

Liability - Pending Litigation: The County's Risk Management program administers the County's Liability Insurance programs; monitors and directs administration of the program through the California State Association of Counties - Excess Insurance Authority (CSAC-EIA) Primary General Liability Insurance Program, Excess Liability Insurance Program, Medical Malpractice Insurance Program; and Cyber Liability Program; works collaboratively with County Counsel on civil lawsuits; and manages County risks.

In FY2017/18, the County Liability Insurance Program utilized a significant portion of the Risk Management Liability Reserve due to unforeseen litigation and settlements, which were not covered by existing insurance or Fund Balance. To address the budget shortfall, the FY2018/19 Adopted Budget included the utilization of a General Fund Contribution of $1,000,000, of which $750,000 was utilized. Midyear Report included a projected $250,000 decrease in the unforeseen litigation and settlements (non-covered liability claims), but which would carry over in to FY2019/20. The FY2019/20 Recommended Budget includes the County General Fund Contribution of $250,000 that was not utilized in FY2018/19 for the remaining unanticipated litigation exposures. County staff continue to monitor potential exposure from pending litigation and will update the Board throughout the upcoming fiscal year.

SUMMARY OF RECOMMENDATIONS

For Board consideration are recommended increases to committed Fund Balances as depicted in Schedule 4. In addition to these recommendations of $8 million to Capital Renewal, and $4.8 million to the Employer PERS Rate Increase, if the FY2018/19 Midyear projection for Fund Balance is not met, or there is an unanticipated shortfall in the FY2019/20 General Fund operating budget the County Administrator will authorize the Auditor-Controller to reduce these recommendations accordingly. However, if the amount of the General Fund's Year-end Fund Balance at June 30, 2019 exceeds the Midyear projections for FY2018/19, then the County Administrator is authorized to direct the Auditor-Controller to increase unrestricted Fund Balance to finance the gap between revenues and expenditures for FY2019/20 of any amount and to transfer year end General Fund Balances to all or some of the following committed Fund Balances and reserves in the following manner:

1. Any amount up to $5 million to Deferred Maintenance/Capital Renewal Reserves
2. Any amount up to $5 million to the CalPERS Reserves and/or 115 Trust
3. Any amount up to $4 million to General Fund Reserves
4. Partially or wholly payoff the outstanding principal balance of the General Fund loan for Pension Obligation Bonds