COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: May 26, 2020

TO: Board of Supervisors

FROM: Birgitta E. Corsello, County Administrator

SUBJECT: FY2020/21 Preliminary Recommended Budget

The FY2020/21 Preliminary Recommended Budget for the County of Solano primarily reflects a pre-COVID-19 pandemic medical emergency budget. The budget submittals were received prior to the COVID-19 pandemic emergency actions taken by the State and federal government. Departments were asked to consider their requirements to provide services to the community and to factor in the ability to address increased operating needs while funding increased labor cost from the recently approved labor agreements with County Bargaining Units. Consistent with recent years, departments were asked to limit growth in General Fund costs as the County was working to balance the pace of expenditure growth versus revenue. In preparing the Preliminary Recommended Budget many key revenue funding sources remain unknown, including uncertainty over the State and federal funding on many mandated programs. It is difficult to accurately predict the extent of impacts from closures and reductions in business activities, as at this time we are still operating under State restrictions; however, we do anticipate additional reductions in revenues. The Governor recently issued initial guidelines for allowing businesses to reopen, specifying a procedure that counties must follow which the Board authorized the Public Health Officer to initiate.

This Preliminary Recommended Budget reflects some reductions in local County revenues, including interest earnings, local sales tax, supplemental taxes, property transfer tax, and disposal fees. Additionally, one statewide revenue source we receive locally, Proposition 172 sales tax, has been adjusted downward in this preliminary budget. All other intergovernmental revenues, both State and federal, are reflected as if there had been no COVID-19 economic impact and will require downward adjustments as part of a supplemental budget change, once State and federal budgets are finalized.

The County Administrator's Office is recommending a modified budget approval process for FY2020/21 in response to the COVID-19 global pandemic emergency. In response, the County Administrator recommended that the Board of Supervisors conduct Preliminary Budget Hearings beginning at 9:00 a.m. on June 25, 2020. During the hearings, the Board will be requested to consider the recommendations included in the FY2020/21 Preliminary Recommended Budget as outlined herein 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 FY2019/20. At the conclusion of the June Budget Hearings, the Board will be asked to take steps to authorize spending beginning July 1, 2020 under the FY2020/21 Preliminary Recommended Budget.

Following Preliminary Budget Hearings in June, the County Administrator will work with Departments to update the Recommended Budget based on any State and federal funding changes, and/or updated budget assumptions resulting from impacts to Solano County from external factors due to the COVID-19 pandemic medical emergency. Any necessary revisions to the Preliminary Recommended Budget will be outlined in a Supplemental Budget document which will be issued on or before September 8, 2020. The County Administrator recommends the Board of Supervisors conduct Adopted Budget Hearings in mid to late September 2020 to consider approval of the Supplemental Budget. At the conclusion of the September Budget Hearings, the Board will be asked to adopt a County Budget for FY2020/21.

The FY2020/21 Recommended Budget includes a section dedicated to the County Statistical Profile, some of which has been modified based on the impacts of the COVID-19 pandemic medical emergency. 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*). As part of the Supplemental information, staff will provide an update on some of the key statistical areas that have changed in 2020.

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 Budgets; 5) Economic Risks; 6) FY2020/21 General Fund Preliminary Recommended Budget; 7) General Fund Fiscal Projections; 8) Pending Issues; and 9) Summary of Recommendations.

BUDGET OVERVIEW

TOTAL FINANCING REQUIREMENTS - ALL GOVERNMENTAL FUNDS FY2020/21							
FUND NAME		FY2019/20 ADOPTED BUDGET		FY2020/21 RECOMMENDED		CHANGE	% CHANGE
GENERAL FUND	$	303,753,517	$	294,769,415	$	(8,984,102)	(3.0%)
SPECIAL REVENUE FUNDS	$	790,519,277	$	821,393,992	$	30,874,715	3.9%
CAPITAL PROJECT FUNDS	$	16,420,137	$	22,424,445	$	6,004,308	36.6%
DEBT SERVICE FUNDS	$	19,886,693	$	16,572,778	$	(3,313,915)	(16.7%)
TOTAL GOVERNMENTAL FUNDS	**$**	**1,130,579,624**	**$**	**1,155,160,630**	**$**	**24,581,006**	**2.2%**
BUDGETED POSITIONS		3,083.40		3,140.58		57.18	1.9%

The FY2020/21 Preliminary Recommended Budget for Governmental Funds is balanced and totals $1,155,160,630 (*Schedules 1 and 2*). The preliminary budget represents an increase of $24.6 million or 2.2% when compared to the FY2019/20 Adopted Budget and utilizes pre-COVID-19 pandemic medical emergency estimates for local, State and federal revenues, as well as the use of Fund Balances with limited draws from reserves in this preliminary budget.

The budget reflects a significant change in the Special Revenue Funds, an increase of $30.9 million primarily due to increases in Public Safety, Health & Social Services, IHSS, Public Facilities, Road, and other funds. The Capital Project Funds have increased by $6 million primarily due to the planned construction of a Solano Residential Mental Health Diversion Facility funded by a State Community Services Infrastructure Grant. The decrease in the General Fund of $9 million is primarily due to estimated reductions in revenue due to COVID-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 FY2019/20 Adopted Budget. The Debt Service Funds reflect a decrease of $3.3 million when compared to FY2019/20 Adopted Budget. Overall, the FY2020/21 Recommended Budget for All Governmental Funds increased by 2.2% when compared to the FY2019/20 Adopted Budget.

The FY2020/21 Preliminary Budget uses the March 2020 Midyear Financial Report projected Fund Balances for 6/30/2020 and draws down $14.3 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. FY2020/21 uses some draws from existing designated reserves 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 Preliminary Budget reflects a workforce of 3,140.58 FTE positions, excluding extra-help positions and made assumptions that existing vacancies would be filled. The Preliminary Budget reflects a net increase of 57.18 FTE compared to FY2019/20 Adopted Budget of which 46.68 FTE were added during FY2019/20. A net difference of 10.50 FTE total additions results from the addition of 18.00 FTE, the deletion of 6.50 vacant FTEs, and 1.0 FTE expiring limited-term are included in the FY2020/21 Preliminary

Recommended Budget. The year to date position changes and those in this 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 Budget narratives provided with this document include 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 and reflect what would be a typical County budget in a healthy robust economy, where revenues and expenses are growing. The FY2020/21 Preliminary Recommended Budget is pre-COVID-19 pandemic medical emergency. The pandemic resulted in emergency actions, ordering a Shelter-at-Home, closure of businesses, and recommended restrictions to discourage non-essential travel or personal activities worldwide. Further analysis and adjustments will be necessary.

The following pages include a financial overview of the FY2020/21 Preliminary Recommended Budget.

FINANCIAL SUMMARY

The Governmental Funds Spending Plan by Function graph portrays a total of $1.15 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.

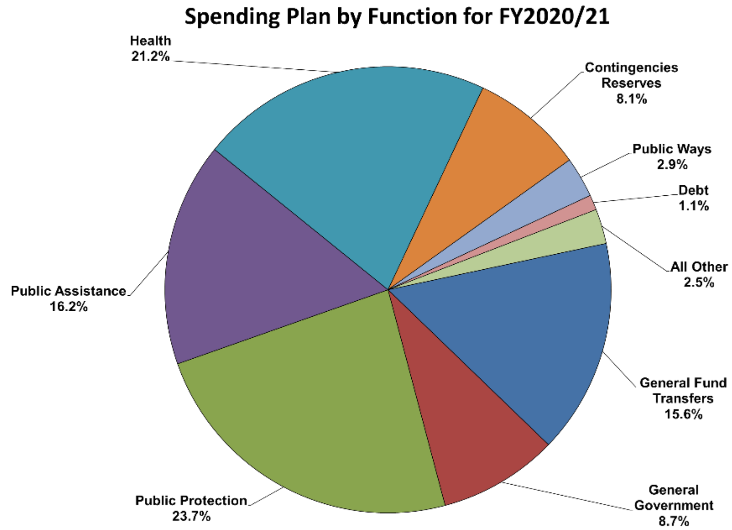
Public Protection represents the single largest category of County appropriations at 23.7% in the FY2020/21 Preliminary Budget, which is in-line with the FY2019/20 Adopted Budget. Public Protection spending is projected to increase $15.5 million in FY2020/21 with the largest increases being in labor costs including wages, medical and retirement, inmate costs, Countywide Administrative Overhead charges, and insurance.

Public Assistance, at 16.2%, and Health, at 21.2%, represent the social safety net function of County government, which together represent an increase from FY2019/20. Health spending is projected to increase by $15.5 million in FY2020/21, primarily due to increases in contracted direct services, support service, and expenditures associated with Inter-Governmental transfer (IGT) transactions.

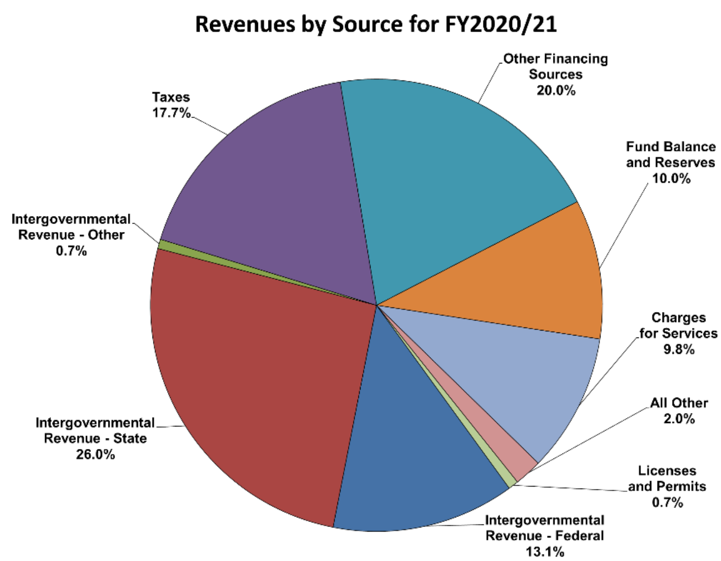
General Fund Transfers increase from a 15% share of the FY2019/20 Adopted Budget to a 15.6% share of the FY2020/21 Preliminary Recommended Budget, reflecting the increases in Public Safety and Public Assistance. These initial numbers do not reflect COVID-19 pandemic impacts, pending State and federal actions in budgets for FY2020/21.

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 39.1% of the Preliminary Budget and generally have specific requirements on how funding can be used. Intergovernmental Revenue from State and federal agencies is pre-COVID-19 pandemic adjustments and reflects an increase of $21 million primarily due to increases in IGT revenue and other H&SS programs. These revenues are subject to State and federal budget actions for FY2020/21. Taxes represent 17.7% of the FY2020/21 revenue projections, which is up slightly from the 17% share in FY2019/20.

Other Financing Sources, which includes the transfer of funding between government budgets, represents 20% share of the FY2020/21 projected revenues, which is up from 19% share in FY2019/20. Fund Balance and Reserves represent a 10% share of the FY2020/21 revenues, which is a decrease from the 12% share in FY2019/20.



GOVERNMENTAL FUNDS
Total: $1,155,160,630



The General Fund Spending Plan (*Fund 001*) graph portrays a total of $294.8 million. The Public Safety category represents the single largest category of expenditures at 47.1% in FY2020/21, which is an increase from a 41.6% proportional share in FY2019/20. 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 33.1% share in FY2020/21, an increase from a 32.2% share in FY2019/20. Functions listed under this category include Agricultural Commissioner, Resource Management, Registrar of Voters (ROV), and General Government.

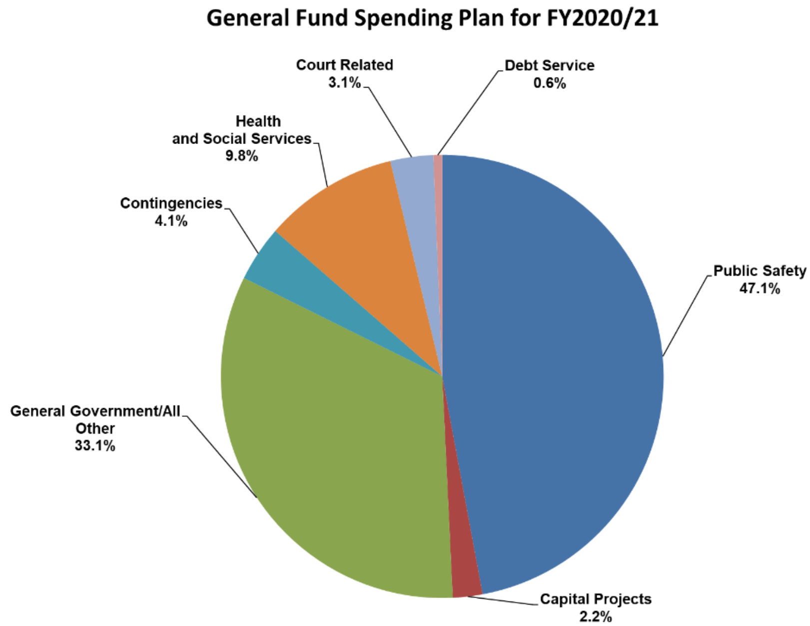
Health & Social Services is the third largest category of General Fund use at 9.8% of the total, which is up from a 9.7% share in FY2019/20. The General Fund contribution to Health & Social Services is projected to decrease by $0.5 million in FY2020/21. However, the contribution is subject to change pending the outcome of State and federal funding resulting from external factors due to COVID-19.

The FY2020/21 Preliminary Recommended Budget excludes the allocation of one-time funds to committed Fund Balances to address impacts of known future obligations for retirement and capital renewal costs.

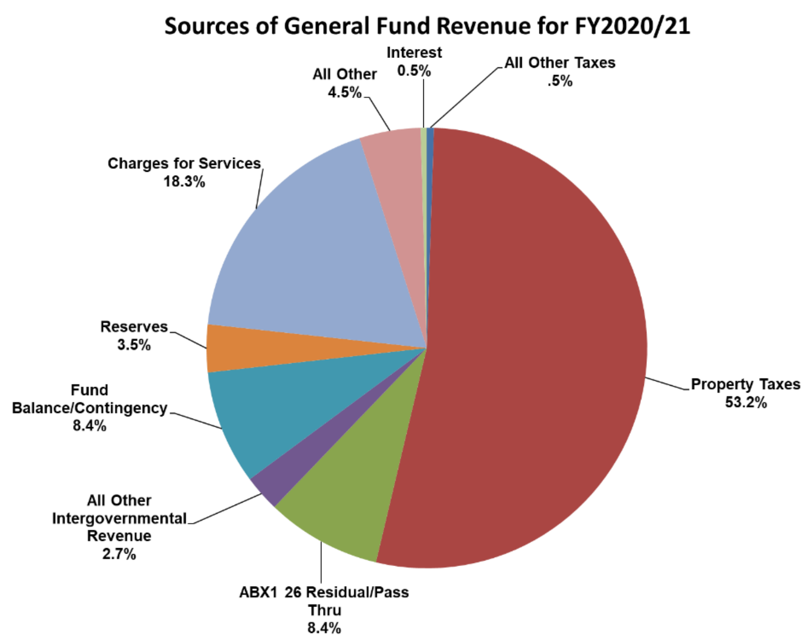
The Sources of General Fund Revenue graph provides information concerning General Fund financing for County operations. General Fund receipt of revenue is projected to decrease by $9 million from the FY2019/20 Adopted Budget, primarily due to impacts from COVID-19 pandemic medical emergency actions taken by the State and federal government.

Revenues derived from property values account for over half of General Fund revenues, with Property Taxes at 53.2% and ABX1 26 Residual and Pass-Through at 8.4%. Property taxes include secured, unsecured, supplemental, unitary, property tax in lieu of Vehicle License Fee (VLF), and property transfer tax. The FY2020/21 Recommended Budget projects a net increase of $7.3 million in these property related revenues when compared to the FY2019/20 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 8.4%. The General Fund projected Fund Balance at the end of FY2019/20 becomes a means of financing for the FY2020/21 Recommended Budget.



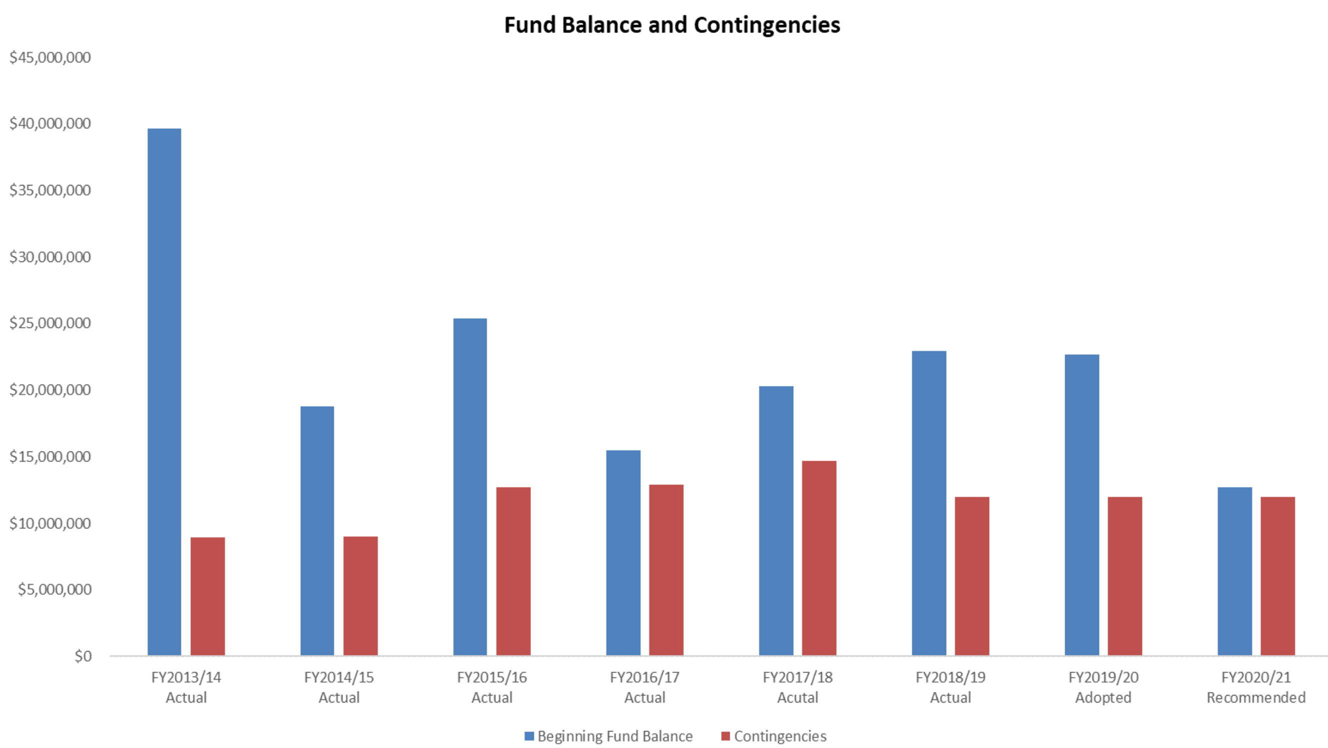
GENERAL FUND
Total: $294,769,415



GENERAL FUND RESERVES, DESIGNATIONS & COMMITMENTS AND FUND BALANCE

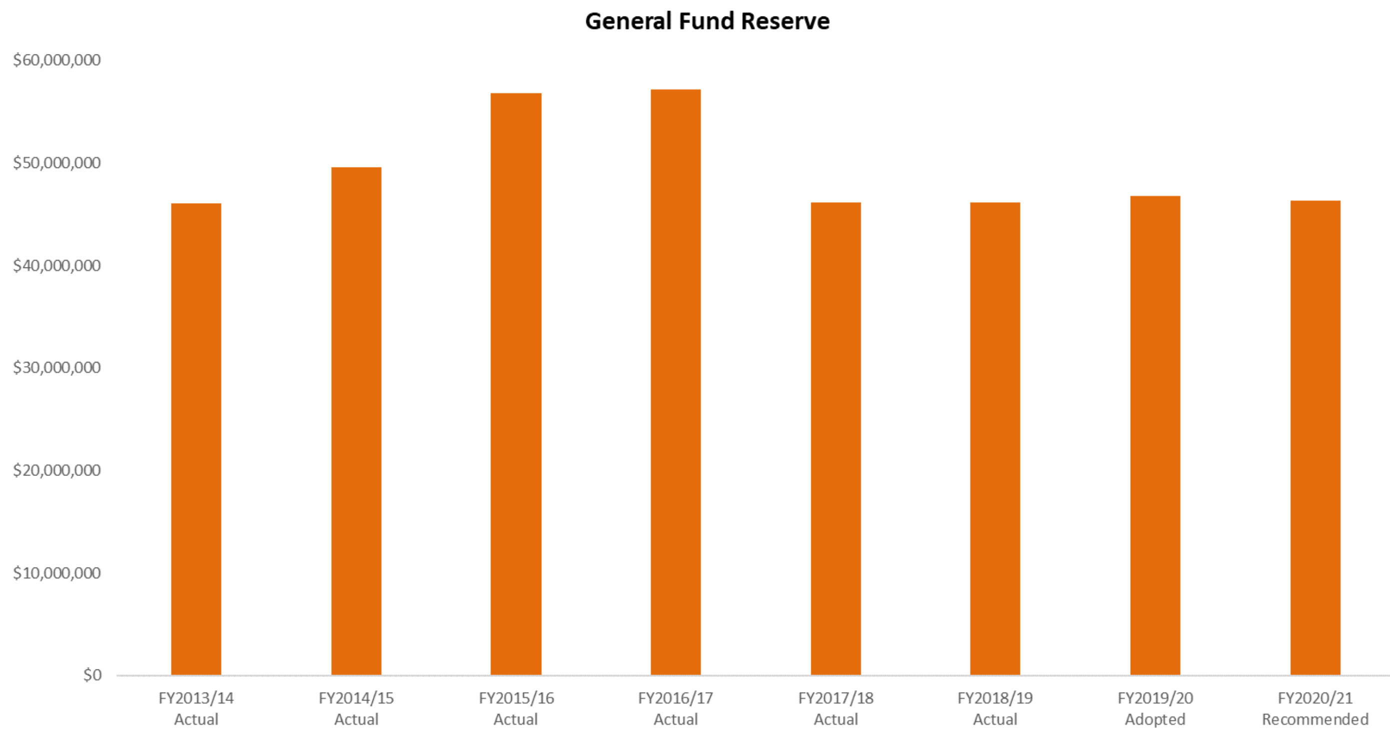
The Board has a set of adopted financial policies and overarching principles intended to position the County to address the range of investments necessary to sustain and provide services. In establishing the Reserves, the County's intent is to have resources for the "rainy day" created by economic downturns; natural and manmade disasters; expected and unexpected costs for facility repairs as an insurance to draw from these resources; and strategically step-down programs to align ongoing expenditures with ongoing revenues. 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 ensure sustainable sources of funds to manage known and unknown fiscal exposures.

In good 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 allowed the County to manage through the Great Economic Recession. As our Nation, State, and County enter FY2020/21 our economy faces significant uncertainty as a result of the COVID-19 global pandemic medical emergency that resulted in numerous actions impacting the economy worldwide. As we look to the future, the Board polices, reserves, and designations will be a critical source for managing in an economy with constricted resources. 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 Balances.



The initial estimation for the Fund Balance at June 30, 2020 is projected at $24.7 million, which includes $12 million for Contingencies; this may change as a result of the COVID-19 pandemic medical emergency and the impacts on revenues.

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 FY2020/21 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 FY2019/20. Based on the FY2020/21 Preliminary Recommended Budget the contingency could be 10% of the General Fund or up to $29.5 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 4/5th vote of the Board of Supervisors.



Per Board adopted policy, which is outlined in the Budget Construction and Legal Requirements section of the FY2020/21 Preliminary Recommended Budget, the General Fund - General Reserve will be maintained at a level equal to 10% of the County's total budget excluding interfund 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 4/5th vote by the Board of Supervisors.

The FY2020/21 Preliminary Recommended Budget for the General Fund - General Reserve is projected at $46.3 million after a draw from the General Reserve to finance County operations in response to the fiscal hardships resulting from COVID-19. Based on Board policy, the reserve target is 10% of the County's total budget, excluding Interfund transfers, which calculates to be $93 million in FY2020/21. The current County General Reserve is $46.3 million, which is 49.8% of the 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 costs 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 CalPERS is 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, 2018, (most recent actuarial report), the County's unfunded actuarial accrued liability for both the Miscellaneous Plan and Safety Plan is $615 million (72% 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 FY2020/21 Preliminary Recommended Budget for the Employer PERS Rate Increases includes both the value of the IRS 115 Trust at $31.3 million and the Reserve for Employer PERS Rate Increase at $15.2 million for a total reserve of $46.5 million. The FY2020/21 preliminary budget does not anticipate additional contributions to the CalPERS trust. However, it should be noted that CalPERS experienced significant losses in the first quarter of 2020 due to COVID-19.

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 (CFIP), 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.

The Department of 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. The annual budget recommendations from the County Administrator's Office sets aside a minimum of $2.8 million and up to $7.64 million, if feasible.

On March 24, 2020, the General Services Department presented to the Board a status update on capital projects included in the FY2020/21 Preliminary 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 $22 million. It is recommended that the Board utilize $6.4 million of this balance to fund projects in FY2020/21 (see Capital Projects budget for details). The FY2020/21 Preliminary Recommended Budget for Capital Renewal Reserve is $15.6 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 FY2020/21. The FY2020/21 Preliminary Recommended Budget for the Unfunded Employee Leave Payoff reserve is $4.9 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 FY2020/21 Preliminary Recommended Budget for Long-Term Receivables is $13.4 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 RDAs 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 FY2020/21 Preliminary 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 FY2020/21 to provide local matching funds to State funding proposed in the Governor's FY2020/21 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

In response to the widespread outbreak of the COVID-19 pandemic beginning in February and continuing into May 2020, members of Congress and President Trump's administration have taken a series of actions aimed at addressing the ongoing public health crisis and associated economic impacts of the COVID-19 pandemic. To date, lawmakers have passed the following four major pieces of coronavirus legislation, all of which have been signed into law by President Trump.

- *Coronavirus Preparedness and Response Supplemental Appropriations Act* – PL 116-123
- *Families First Coronavirus Response Act* – PL 116-127
- *Coronavirus Aid, Relief, and Economic Security Act (CARES Act)* – PL 116-136
- *Paycheck Protection Program and Health Care Enhancement Act* – PL 116-139

The aforementioned public laws, taken together, provide roughly $3 trillion in federal aid to states, local governments, businesses, individual taxpayers, and other entities that have been impacted by the coronavirus. The following is a breakdown of some of the major federal funding sources available to Solano County for COVID-19 response and recovery.

<u>Public Health Funding</u> - PL 116-123, PL 116-136, and PL 116-139 all include significant investments in public health. Federal funding for local health departments, which is being provided through CDC's Public Health Emergency Preparedness (PHEP) program, can be used for a variety of activities, including: surveillance, epidemiology, laboratory capacity, infection control, mitigation, communications, and other preparedness response activities.

For its part, Solano County received $449,593 in an initial round of public health awards. The County will be receiving additional CDC dollars as future funding is made available.

<u>Federal Match Increase for Medicaid and Foster Care</u> - PL 116-127 provides a 6.2 percentage point boost in the federal match for Medicaid/Medi-Cal and Title IV-E foster care maintenance payments. It is estimated that the change in law will result in California receiving approximately $4.46 billion in *additional* Medicaid funding (compared to what the State would have received during CY2020). The enhanced federal match is retroactive to January 1, 2020 and will continue until the end of the calendar year quarter in which HHS terminates the public health emergency declaration.

According to a March 23 California State Legislative Analyst's Office (LAO) report, "The overall net fiscal impact to the State of the enhanced federal funding is subject to considerable uncertainty. Based on our preliminary estimates, and assuming there are no changes to current caseload and costs per case as a result of COVID-19, the enhanced federal funding could potentially reach between $300 million and $400 million per month (while the enhancement remains in effect)—which reflects around 3 percent to 4 percent of total monthly Medi-Cal spending of nearly $10 billion."

The LAO is projecting that the enhanced federal funding will result in significant General Fund savings on a state fiscal-year basis. If the enhanced rate remains throughout CY2020, the estimated range of monthly enhanced federal funding would translate to the State of California receiving between $1.5 billion to $2.5 billion in General Fund savings for FY2019/20 and FY2020/21.

As of this writing, there is no similar estimate for the amount of additional foster care funds coming to the State.

<u>Child Care Development Block Grant</u> - PL 116-136 provides $3.5 billion for child care programs. Funding may be used to ensure access to child care for healthcare sector employees, emergency responders, sanitation workers, and other workers deemed

essential and without regard to the income eligibility requirements. Funds also may be used to continue payments to child care providers to ensure they can pay staff, cover operating costs, and remain open or reopen in the future. Other eligible uses of funding include cleaning and sanitization or other activities due to the COVID-19 pandemic that are necessary for child care providers to remain open or reopen in the future. It is estimated that California will receive roughly $340 million.

Older Americans Act - PL 116-127 and PL 116-136 included $250 million and $820 million, respectively, for *Older Americans Act* (OAA) programs.

The initial $250 million can be used to provide meals to older adults, some people with disabilities, and their caregivers. The uses for the $820 million is slightly broader and includes nutrition programs, home and community-based services, and family caregiver support. California is slated to receive roughly $25 million of the PL-116-127 funding, with about $17 million allocated to home-delivered meals and $8 million to provide meals in group settings. HHS announced on March 24 that it had made PL 116-127 allocations to states, and states will subsequently make grants to local agencies.

Community Development Block Grant (CDBG) - PL 116-136 provides $5 billion in CDBG funding to enable counties and cities to address the economic and housing impacts caused by the COVID-19 pandemic. Grantees may use CDBG funds for a wide range of activities to prevent and respond to the spread of the coronavirus. It should be noted that PL 116-136 eliminates the cap on the amount of funds a grantee can spend on public services, removes the requirement to hold in-person public hearings in order to comply with national and local social gathering requirements, and allows grantees to be reimbursed for COVID-19 response activities regardless of the date the costs were incurred.

Community Services Block Grant - PL 116-136 provides $1 billion in funding for the Community Services Block Grant (CSBG). Funds may be used to provide services and activities addressing employment, education, better use of available income, housing, nutrition, emergency services, and/or health. States are required to passthrough 90% of their allocation to local CSBG eligible entities. Those entities include, but are not limited to, local governments and Community Action Agencies. California received about 9% of the FFY2019 funding nationally, so it is estimated that the State will receive roughly $90 million in funding under PL 116-136. Typically, CSBG can serve individuals whose incomes are up to 125% of the federal poverty level (FPL). Under PL 116-136, agencies can serve individuals up to 200% of the FPL.

Low Income Home Energy Assistance Program (LIHEAP) - PL 116-136 provides $900 million for LIHEAP. In California, the Home Energy Assistance Program (HEAP) provides one-time financial assistance to help balance an eligible household's utility bill. The Energy Crisis Intervention Program (ECIP) provides assistance to low-income households that are in a crisis situation, including those facing a service termination by their utility company. LIHEAP Weatherization provides free energy efficiency upgrades to low-income households to lower their monthly utility bills. COVID-19 LIHEAP funds are available through September 2021, allowing states the flexibility to assist families when they need it the most – after utility shutoff suspensions are lifted and when bills become due. In FFY2020, California received $204 million, or 5.5% of the national total. On May 8, the State received $49.7 million in PL 116-136 funding.

Homelessness Continuum of Care (CoC) Program/Emergency Solutions Grants - PL 116-136 includes $4 billion to address the needs of individuals and families who are homeless or at risk of homelessness. Funding may be used for eviction prevention activities, including rapid rehousing, housing counseling, and rental deposit assistance and to support additional homeless assistance. The Act forgoes any existing funding match requirements.

Rental Assistance Protections - PL 116-136 includes $3 billion for housing providers to assist low-income individuals and families with the ability to remain in their homes or access temporary housing assistance. Of the total, $1.9 billion is set aside for public housing agencies (PHAs) for Section 8 voucher support; $1 billion is designated to allow the continuation of housing assistance contracts with private landlords for Project-Based Section 8 households; $65 million is for housing for the elderly and persons with disabilities; and $65 million is for Housing Opportunities for Persons with AIDS.

Supplemental Nutrition Assistance Program (SNAP/CalFresh) **-** PL 116-127 allows states to request waivers from USDA to provide temporary, emergency SNAP benefits to households up to the maximum monthly benefit amount and suspends time limits on SNAP eligibility for unemployed or underemployed individuals. Moreover, PL 116-136 increases SNAP by $15.5 billion to account for the anticipated spike in need for FFY2020.

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) **-** PL 116-123 provides $500 million for WIC to assist pregnant, postpartum, and breastfeeding women, infants, and children up to age five. Recipients must meet income guidelines, a state residency requirement, and be individually determined to be at "nutritional risk" by a health professional. A participant's gross income must fall at or below 185% of the poverty level. In FFY2020, California received $810 million of the $5.2 billion appropriated nationally. Under PL 116-123, the State will receive roughly $77.9 million.

The Emergency Food Assistance Program (TEFAP) **-** PL 116-127 provides $400 million for TEFAP, including $300 million for commodities and $100 million to support food storage and distribution. PL 116-136 provides an additional $450 million for the TEFAP program, including $300 million for commodities and up to $150 million for distribution costs. Through TEFAP, USDA purchases a variety of food commodities and makes those resources available to State Distributing Agencies based on the number of unemployed persons and the number of people with incomes below the poverty level in the state. In turn, states provide the food to local agencies, usually food banks, which distribute the food to local organizations, such as soup kitchens and food pantries. States also provide food to other types of local organizations, including community action agencies, which distribute the foods directly to low-income households. California typically receives 12% of total federal TEFAP funding, which means that $80 to $85 million will come to the State.

Coronavirus Relief Fund **-** PL 116-136 included a $150 billion Coronavirus Relief Fund (CRF) designed to reimburse states, local governments, and tribes for coronavirus-related expenditures. Notably, only localities with populations over 500,000 received direct CRF aid. Localities under the threshold are eligible to receive funding through the State; as of this writing, it remains unclear if Governor Newsom will share funds with these localities.

FEMA Public Assistance Program **-** On March 13, President Trump declared that the COVID-19 outbreak in the United States constitutes a national emergency. The president's declaration makes federal disaster relief funding available to Solano County through FEMA's Public Assistance (PA) program. Local emergency protective measures that are *not* supported by the authorities of another federal agency are considered eligible for FEMA reimbursement, including: Emergency Operation Center costs; technical assistance for emergency management and control of immediate threats to public health and safety; emergency medical care, medical sheltering; and, certain security and law enforcement-related costs. All eligible activities will be reimbursed by FEMA at a 75% Federal cost share.

Emergency Management Performance Grants **-** PL 116-136 provides $100 million for state, local, territorial, and tribal governments for FEMA's Emergency Management Performance Grant (EMPG) program. State Emergency Management Agencies are eligible to apply directly to FEMA for EMPG funds, with dollars available to sub-allocation to local governments. EMPG funds are available to support a wide variety of emergency management preparedness purposes, including equipment purchase, training, exercises, planning, etc. CalOES is the State lead in applying for FEMA EMPG grant funds.

Transit Systems **-** PL 116-136 provides $25 billion to public transit operators for operating costs to maintain service and lost revenue due to the coronavirus public health emergency. Of the $25 billion, roughly $22.7 billion is being provided to large and small urban transit systems, with $2.2 billion going to rural transit operators.

Pursuant to the law, funding is being provided at a 100% federal share (no local match is required). Funds are expressly available for operating expenses to prevent, prepare for, and respond to COVID-19 beginning on January 20, 2020, including the purchase of personal protective equipment and paying administrative leave of operations personnel due to a reduction in service.

Byrne-Justice Assistance Grant (JAG) Program **-** PL 116-136 provides $850 million for the Byrne-JAG program for state and local law enforcement agencies to aid in preventing, preparing for, and responding to the coronavirus. California's share of the funding is roughly $58.5 million, with Solano County slated to receive $58,008. There is no cost-sharing or match requirement for the Byrne-JAG COVID-19 program. Allowable projects and purchases include, but are not limited to, overtime, equipment (including law enforcement and medical personal protective equipment), hiring, supplies (gloves, masks, sanitizer, etc.), training, travel expenses (particularly related to the distribution of resources to the most impacted areas), and addressing the medical needs of inmates in state, local and tribal prisons, jails, and detention centers.

FCC COVID-19 Telehealth Program **-** PL 116-136 provides $200 million for the Federal Communications Commission (FCC) to initiate a new telehealth program. Pursuant to the initiative, the FCC is authorized to grant funding to healthcare providers, including local health agencies, for purposes of treating more patients at home and freeing up hospital beds for those who most need them during the public health emergency. Healthcare providers may purchase telecommunications equipment, boost broadband connectivity, and secure devices necessary for providing telehealth services.

Emergency Family and Medical Leave Expansion & Emergency Paid Sick Leave **-** PL 116-127 modifies the *Family and Medical Leave Act* (FMLA) to create an emergency paid leave program. Public agencies, as well as private sector employers with fewer than 500 workers, are required to provide as many as 12 weeks of job-protected leave for employees who are unable to work or telework because they have to care for a child (under 18 years of age) whose school or day care has closed because of the coronavirus. The law also provides full-time employees who are unable to work or telework with up to two-weeks of immediate paid sick leave. Part-time employees are also eligible for paid sick leave, but the amount will be prorated based on the average number of hours that the employee works over a two-week period. The aforementioned provisions became operational on April 1 and will remain in place until December 31, 2020. Whereas private sector employers are allowed to receive a tax credit to offset the cost of complying with these mandates, public sector employers are explicitly *prohibited* from receiving the benefit.

Outlook and FFY2021 Budget - Finally, and with regard to the federal fiscal year 2021 budget, the House and Senate Appropriations Committee are beginning the process of developing the 12 regular annual spending measures. While appropriators have topline budget numbers to work with for the FFY2021 budget year, the ongoing pandemic will no doubt heavily impact spending decisions.

California State Budget Update

On January 10, 2020, the Governor released his initial FY2020/21 budget plan to the Legislature. On May 14, 2020, the Governor presented his proposed May Revision for FY2020/21 which was dramatically different because of the increasing COVID-19 pandemic medical emergency which unfolded in February and continues in May. The May Revision typically reflects minor changes to the Governor's January proposal, however, the impacts of COVID-19 have resulted in a May Revision that puts forth an entirely different set of proposals to address the economic challenges and the emergency response, including spending reductions and expanded borrowing. The May revised budget proposal outlines two tiers of budget solutions, with approximately $14 billion of reductions only going into effect if the federal government fails to provide sufficient additional funding and includes a second tier of conditional cuts which would fall heavily on health programs, human services, schools, and State workers, who would see a 10% cut to their salaries if insufficient federal funds are forthcoming.

The State of California Legislature faces a constitutional deadline of June 15 to pass a balanced budget. Due to the delays in the due dates for the payment of Sales Tax and State and federal income taxes, an actual State final budget is expected in the Fall and additional changes could occur throughout FY2020/21. Additional information on proposals included in the May Revision are outlined below. The impacts of the May Revision remain under review, additional information regarding the Governor's May Revise will be discussed in the County's FY2020/21 Supplemental Budget in September.

2011 Public Safety Realignment - The Governor's May Revision updates revenue assumptions for 2011 Public Safety Realignment programs. Due to the impacts of the COVID-19 pandemic medical emergency and actions to close many businesses, Sales and Use Tax revenue is expected to sharply decline and reduce funding for the Local Revenue Fund 2011. For the Community Corrections Subaccount (AB 109), FY2019/20 revenue is estimated to total $1.152 billion, which does not fulfill the statewide base of $1.366 billion ($214 million short of base funding) and there is also no growth estimated for FY2019/20. For FY2020/21, Community Corrections Subaccount projections total $1.174 billion, a reduction of $284.5 million compared to the January projections and also falling short of the $1.366 billion base, and no growth projected for FY2020/21. The individual County base estimates are being calculated and updates will be provided to counties. Once updated revenue projections are received staff will reflect changes in the Supplemental Budget adjustments.

Other Probation Reforms and Investments - The May Revision withdraws the following probation reforms and proposals which were included in the Governor's January Budget proposal.

- $60 million General Fund annually for three years and $30 million General Fund in FY2023-24, to provide for additional supervision and services for misdemeanant probationers at the county level.
- A reduction in probation terms to two years for both felony and misdemeanant probationers and an opportunity for earned discharge for probationers, which leave in place current terms and a potential impact in jail population.
- $11 million General Fund ongoing to augment the $113.8 million General Fund base for the Community Corrections Performance Incentive Grant program (SB 678). This augmentation would have provided funding for each county to receive their highest ever payment under the last three years of the program and was intended to stabilize the grant program going forward. In lieu of the previously proposed change to the SB 678 grant program, the May Revision maintains the existing SB 678 calculation, which will provide county probation departments $112.7 million in FY2020/21.

The May Revision does include $12.9 million General Fund for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision as a result of the implementation of Proposition 57. This is a decrease of $902,000 from the amount estimated in the Governor's January Budget.

Board of State and Community Corrections (BSCC) **-** The BSCC budget includes a trigger cut tied to the receipt of federal funds. Specifically, the Adult Reentry Grant ($37 million) program originally funded in the FY2019/20 Budget, which provides competitive awards to community-based organizations to support offenders formerly incarcerated in state prisons, would be eliminated, if no additional federal funds are received.

Reduced Proposition 47 Savings **-** Proposition 47, passed by the voters in November 2014, requires misdemeanor rather than felony sentencing for certain property and drug crimes, and permitted inmates previously sentenced for these reclassified crimes to petition for resentencing. Each year, State savings from the implementation of Proposition 47 is required to be transferred and re-allocated in grant programs, as specified in the initiative. The May Revision estimates total savings of $102.9 million for FY2019/20, a decrease of $19.6 million from the Governor's January Budget estimate.

Judicial Branch **-** The May Revision includes several changes to the Judicial Branch budget; but most notably, the May Revision withdraws proposals included in the Governor's January Budget to support trial court operations and reduces funding to begin the design and construction of courthouse projects. It is anticipated this includes the Solano Court Houses replacement project. This action suspends $2 billion ($505 million General Fund) over the next five years as the courts reassess how they use their facilities in the wake of the COVID-19 pandemic. Other Judicial Branch programs reflect a 5% reduction to the following programs: Dependency Counsel; Court Interpreters; California Collaborative and Drug Court Projects; Court Appointed Special Advocate Program; Model Self-Help Program; Equal Access Fund; Family Law Information Centers; and, Civil Case Coordination.

Closure/Realignment of the Division of Juvenile Justice **-** Rather than the previous proposal to shift the state Division of Juvenile Justice (DJJ) to the Health and Human Services Agency, the May Revision now proposes to eliminate DJJ and realign responsibility for those youthful offenders to county probation departments. To effectuate this change, the proposal calls for state DJJ intake to cease beginning January 1, 2021 and begin closing state facilities upon the attrition of current wards. While the dollar amount is currently unclear, the proposal also specifies the State will direct a portion of the State savings to county probation departments. Lastly, the proposal includes initial funding of $2.4 million General Fund in 2020-21 increasing to $9.6 million ongoing to be awarded as competitive grants to county probation departments that will serve as hubs to meet the specific treatment needs of youth throughout the juvenile justice system.

Reducing Criminal Fines and Fees **-** The May Revision maintains the Governor's January Budget proposal to expand statewide an existing pilot program that allows indigent and low-income individuals to apply online to have their fines and fees from traffic infractions reduced in accordance with their ability to pay. The May proposal withdraws the backfill of $54 million in lost revenue for trial court operations. Notably, the proposal does not backfill lost local revenue.

Department of State Hospitals **-** The May Revision includes a significant increase from the January Budget proposal. The patient population for DSH is expected to increase to 6,791 individuals by the end of FY2020/21 which includes individuals receiving jail-based competency treatment. The May Revision withdraws the January Budget proposal of $24.6 million in FY2020/21 and $364.2 million over six years for the implementation of the Community Care Collaborative Pilot Program (CCCP). This program would have established a pilot in three counties that focused on placing individuals with mental health needs, specifically those designated Incompetent to Stand Trial, into stable placements in the community instead of state hospitals.

Federal CARES Act 2020 Funding **-** The CARES Act provided direct allocations of $9.5 billion to California and $5.8 billion collectively to the 16 largest counties and five cities. The funds must be used before the end of the calendar year for expenses related to the COVID-19 pandemic emergency response impacts. The May Revision proposes an allocation of $1.3 billion to counties for certain expenses (described below) and $450 million to cities that did not receive a direct allocation from the federal government. Cities with populations over 300,000 will receive funding directly from the State, while smaller cities will be provided funding through their counties. These funds must be spent consistent with federal law. The Governor is advising cities to prioritize these dollars to supplement existing efforts by counties and Continuums of Care to address COVID-19 impacts on homeless individuals, including outreach and housing supports. Funding for counties is based on population size and is intended to address the public health, behavioral health, and other health and human service needs that have arisen as a result of COVID-19. The funds would be released upon jurisdictions' certification that the spending adheres to federal guidance and the State's stay-at-home orders, it is unclear if the county or a city must certify.

CalWORKS Employment Services and Child Care - Absent additional federal funds in FY2020/21, the May Revision proposes reductions in CalWORKS. The May Revision reflects reduced assumptions about the uses of CalWORKs Employment Services and Child Care and reduces all but the base funding for CalWORKs Subsidized Employment. The May Revision reduces funding for CalWORKs Home Visiting and eliminates funding for CalWORKs Outcomes and Accountability Review (CalOAR) but provides counties the options without funding to continue implementing this improvement.

Sales Taxes **-** Due to the COVID-19 pandemic medical emergency actions, taxable sales are projected to decline by 4.6% in FY2019/20 and a further 17.3% in FY2020/21. The State Administration estimates consumer spending to decline by 15.6%, which is a substantial decrease even when compared to the Great Recession, when consumer spending declined by 8.9%.

Property Taxes - The Governor's January Budget anticipated a 6.4% growth in FY2019/20 statewide property tax revenues, the May Revise includes a projection down to 5.8%, based on preliminary data, which takes in to account counties cancelling penalties and charges related to late payments. In FY2020/21, property tax revenues are expected to grow 3.5%, which accounts for an anticipated increase in delinquencies, which typically rise in a recession.

Elections **-** The May Revision notes that California received $36.3 million from the federal CARES Act specifically for voting activities, including increasing the State's ability to vote by mail, and it notes that the Governor's Executive Order N-64-20 requires counties to send mail ballot to all registered voters. However, it does not propose any specific uses for the federal funds, nor does it propose to provide any funding to counties for these increased costs. The budget summary declares the intention of the Administration "to work with the Legislature and the Secretary of State to determine how requirements for in-person voting opportunities and other details of the November election will be implemented."

The impacts of the Governor's May Revision on Solano County remain under review. Adjustments the FY2020/21 Preliminary Recommended Budget will be necessary and depend on the final State approved budget. Additional information on the May Revision and the potential impacts will be provided in the coming weeks and months prior to final approval of the FY2020/21 Adopted Budget.

ECONOMIC RISKS - POTENTIAL IMPACTS ATTRIBUTED TO COVID-19 PANDEMIC

Nationally

The Congressional Budget Office (CBO) has developed preliminary projections of key economic variables through the end of calendar year 2021, based on information about the economy that was available through April 24, 2020 and including the effects of an economic boost from legislation recently enacted in response to the pandemic. The CBO has developed a preliminary assessment of federal budget deficits and debt for fiscal years 2020 and 2021. In the second quarter of 2020, the economy is expected to experience a sharp contraction resulting from the COVID-19 pandemic emergency response actions. Inflation-adjusted gross domestic product (real GDP) is expected to decline by about 12%, equivalent to a decline at an annual rate of 40% for that quarter. The unemployment rate is expected to average close to 14% during the second quarter. Interest rates on 3-month Treasury bills and 10-year Treasury notes are expected to average 0.1% and 0.6%, respectively, during that quarter. In the third quarter of 2020, economic activity is expected to increase, as concerns about the pandemic diminish and state and local governments ease stay-at-home orders, bans on public gatherings, and other measures restraining economic activity. However, challenges in the economy and the labor market are expected to persist for some time. Interest rates on federal borrowing are expected to remain quite low in relation to rates in recent decades. For fiscal year 2020, CBO's early look at the fiscal outlook shows the federal budget deficit is projected to be $3.7 trillion and federal debt held by the public is projected to be 101% of GDP by the end of the fiscal year.

The CBO's preliminary projections, are subject to enormous uncertainty, reflect information from a number of sources, including high-frequency indicators, private-sector forecasts, and projections of the extent of social distancing derived from analysis of a range of scenarios for the future course of the pandemic. High-frequency indicators include more than 24 million new unemployment insurance claims reported since mid-March, as of the end of April. Social distancing began in early March, new information has generally suggested a worsening outlook, and private-sector forecasts have been revised repeatedly in that direction.

California

The State of California began 2020 with a strong bill of financial health - a strong economy, historic reserves, and a structurally balanced budget according to the Department of Finance. The unemployment rate (3.9%) was one-third of its Great Recession peak (12.3%). The State's "Wall of Debt" from past budgetary borrowings had been eliminated, and supplemental payments were made to the State's retirement obligations. The Governor's FY2020/21 January budget anticipated a $5.6 billion surplus. The budget reflected a record level of reserves: $21 billion in FY2020/21, including $18 billion projected in the state's Rainy-Day Fund. State revenues received through March ran $1.35 billion above January's projections, as markets outperformed the budget forecast. This positive momentum in the State's economy took a sharp turn with the onset of the COVID-19 pandemic medical emergency and grew rapidly in March 2020. The impact of the COVID-19 pandemic has been global and the emergency response actions have been immediate, altering global, national, and state economies. Since mid-March, more than 4.2 million unemployment claims have been filed and in California 478,000 claims were filed in one week. The Department of Finance projects that the 2020 unemployment rate in California will be 18%, a much higher rate than during the Great Recession. More job losses have occurred disproportionately in the lower-wage sectors of the economy - amplifying the wage disparity that existed before the pandemic. The Governor's May Budget Revision reflects an economic forecast that COVID-19 impacts will continue to cause economic losses in 2020 with California personal income projected to fall by nearly 9%, on an annual basis, in 2020. Permits for new housing construction, a key economic indicator, are forecast to drop by more than 21% this year. As California enters mid-May 2020, many counties are working to restart the local economy, opening business, and working to prevent further spread of COVID-19. The full impact of the State's stay-at-home order and the resulting economic hardships for individuals, families, businesses, schools and the government services people are relying on are still unfolding.

Staff will be monitoring closely the State and federal economic developments and the budget decisions that this emergency requires. We will prepare additional recommendations as part of the Supplemental Budget for FY2020/21 and return as needed when more is known.

FY2020/21 GENERAL FUND PRELIMINARY RECOMMENDED BUDGET

The County's FY2020/21 Preliminary Recommended Budget for the General Fund of $294.8 million is balanced anticipating revenues of $259.8 million, drawdowns from committed Fund Balances of $6.4 million for Capital Renewal Reserve, $1.5 million for Accrued Leave Payoff, $2 million for PERS Rate Reserve, $0.4 million for General Reserve and use of Fund Balance ($24.7 million).

The Preliminary Recommended Budget for General Fund reflects revenues of $259.8 million, an increase of $2.4 million excluding reserves when compared to the FY2019/20 Adopted Budget of $257.4 million. The increase in revenues anticipates a net increase in Tax Revenues, including taxes driven by the increased value in assessed roll, and other tax revenue totaling $6.2 million primarily due to improved property values as of the lien date in January 2020. Other revenues derived from taxes are anticipated to decline and include: Current Unsecured, Supplemental Secured, Penalties, and Sales and Use Tax revenue. These declines are driven by economic losses from the COVID-19 pandemic created recession. Also anticipated is a reduction in Interest Income of $2 million due to economic downturn and reductions in Intergovernmental Revenues of $2 million driven by one-time funding for vote tabulation equipment in Registrar of Voters and grant funding received in FY2019/20.

GENERAL FUND FISCAL PROJECTIONS

Solano County uses Fiscal Projections to provide insight into future trends for General Fund Revenues and Expenditures enabling 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 FY2019/20 Midyear projections prepared in February 2020, just before the onset of the COVID-19 pandemic medical emergency actions and are provided for comparison only. Using the FY2020/21 Preliminary Recommended Budget as the starting point for the upcoming year; however, will need to be revised once the State and federal FY2020/21 budgets have been adopted. The table reflects projected revenues and expenditures through FY2022/23 prior to COVID-19. It is not feasible to provide a meaningful longer forecast in light of the changing economic dynamics, an uncertain Federal Budget, and changes in State mandated programs.

The FY2020/21 Preliminary Recommended Budget and the projections are subject to change pending revenue and expenditure impacts due to external factors resulting from the COVID-19 pandemic emergency. Staff will be working to update projections based on the State's Budget, Governor's May Revise, and other potential changes in federal funding. Updated projections will be provided in connection with Supplemental Budget adjustments prior final approval of the FY2020/21 Adopted Budget.

Solano County
General Fund - Fiscal Projection
FY2020/21 Recommended Budget
(in million of dollars)

		Midyear Projection For 6/30/20	Recommended Budget FY2020/21	Projected Budget FY2021/22	Projected Budget FY2022/23
a	**General Fund, Beginning Balance**	$ 34.68	$ 24.69	$ 12.00	$ (7.67)
	TO Reserves:				
	General Reserves				
	Unfunded Employee Leave Payoff	(1.132)			
	Capital Renewal Reserve	(13.234)			
	Employer CalPERS Rate Increases	(7.991)			
	PARS 115 Trust				
b	Subtotal - TO Reserves	(22.357)	0.000	0.000	0.000
	FROM Reserves:				
	General Reserves		0.437		
	Unfunded Employee Leave Payoff	1.500	1.500	0.800	0.800
	Capital Renewal Reserve	8.628	6.385	4.000	4.000
	Employer CalPERS Rate Increases	2.000	2.000	4.000	4.000
	Encumbrances	0.936			
c	Subtotal - FROM Reserves	13.064	10.322	8.800	8.800
d	**Net Increase (Decrease) in Funding Sources: (b+c)**	(9.293)	10.322	8.800	8.800
e	**TOTAL AVAILABLE FINANCING (a+d)**	25.387	35.015	20.803	1.131
f	Operating Expenditures (excluding Contingencies/transfers to Reserves)	264.835	282.769	292.821	302.282
g	Contingencies	0.000	12.000	12.000	12.000
h	**Total Operating Expenditures**	264.835	294.769	304.821	314.282
i	Operating Revenues (excluding transfers from Reserves)	262.141	259.757	264.349	272.469
j	Operating Expenditures (excluding Contingencies/transfers to Reserves)	264.835	282.769	292.821	302.282
k	**Net operating Revenues over (under) Expenditures [known as Operational Deficit] (i-j)**	$ (2.694)	$ (23.012)	$ (28.472)	$ (29.813)

***** General Fund, Beginning Balance in FY2020/21 includes estimated additional savings from County departments as projected at Midyear, however COVID-19 financial impacts may reduce the beginning fund balance for FY2020/21. FY2021/22 and FY2022/23 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 FY2021/22 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 FY2020/21 Preliminary Recommended Budget includes the use of General Fund – Committed Fund Balances of $6.4 million from Capital Renewal, $2 million from Employer CalPERS Rate Increase, and $1.5 million from Unfunded Employee Leave Payoff and $0.5 million in General Reserves.

The significant Revenue Assumptions from the General Revenues budget include:

- An estimated 3% increase in assessed values compared to the FY2019/20 corrected assessment roll, the following increases are projected: $4.6 million in Current Secured Property Taxes, $2.5 million Taxes in Lieu revenues, $0.9 million in ABX1 26 Pass Through, and $0.4 million increase in ABX1 26 Residual Revenue. Projections in FY2021/22 and FY2022/23 reflected herein were based on assessed values changes prior to COVID-19 and include 3% increases. The impact of COVID-19 on the local housing market and identification of possible housing projects in FY2020/21 are still under evaluation. Based on the corrected assessment roll for FY2019/20, 8,907 properties still remain on Prop 8 Tax Reduction status related to the negative economic impacts from the Great Recession. The number of properties under Prop 8 Tax Reduction status will remain under evaluation by the Assessor/Recorder. If assessed values decline due to the COVID-19 pandemic medical emergency actions, projected revenues in FY2021/22 and FY2022/23 will be reduced.

- Current Unsecured Property Taxes are projected to decline by $0.6 million in FY2020/21 when compared to the FY2019/20 Adopted Budget based on appeals which have reduced values in select cases. Additionally, there is a potential for business inventory and valuation changes due to Shelter-at-Home orders resulting in closures which may negatively impact Unsecured Tax revenue. In the subsequent years, Unsecured is anticipated to increase by only 1% per year in FY2021/22 and FY2022/23 as there are a number of appeals from large businesses that may continue to impact these revenues.

The County Budget is also 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 Preliminary Recommended Budget for FY2020/21 reflects $35.3 million in Proposition 172 funding, a decrease of $5.5 million when compared to FY2019/20 Midyear projection. As Proposition 172 funds decrease for the County, the Public Safety Fund Departments will be impacted and may need increased County revenue support to ensure delivery of mandatory services. It is anticipated there will be a decrease due to the statewide decline in projected sales tax revenue related to COVID-19. County staff are monitoring the sales tax projections for Proposition 172 revenues and may provide update projections prior to final approval of the FY2020/21 Adopted Budget.
- ▪ The Preliminary Recommended Budget for FY2020/21 reflects $67.1 million drawdown in 1991 State – Local Realignment revenues, a decrease of $2.6 million; and $42.9 million in 2011 Realignment funds, a decrease of $0.2 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 there may be an increased demand for General Fund.

Expenditure Assumptions:

- 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 27.191% for Miscellaneous and 35.321% for Safety in FY2020/21.
- Health insurance costs are projected to increase 5.5% per year based on past rate history for FY2020/21, with 5%-7% annual increases likely in future years.
- The County General Fund Contributions through FY2020/21 are listed below:
  - ▪ General Fund support for Public Safety is projected to increase from $126.3 million to $138.8 million; a $12.5 million net increase. This increase is primarily due to Salaries and Employee Benefit increases, increases in insurance, inmate costs, and Countywide Administrative Overhead costs.
  - ▪ General Fund support for H&SS and IHSS Public Authority is projected to decrease from $29.5 million to $29 million; a $0.5 million decrease. The decrease is primarily due to changes in the General Fund costs for IHSS resulting from the modifications to the IHSS Maintenance of Effort (MOE), which are partially offset by increases in the County share of costs for Social Services programs, including CalFresh, CalWORKs and Medi-Cal.
- The FY2020/21 Recommended Budget includes a Contingency appropriation of $12 million.

General Fund Deficit Reduction Strategies for FY2020/21 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 if revenues do not materialize as anticipated.

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 an into 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: 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.

The Preliminary Recommended Budget document was prepared early in the March/April timeframe to facilitate a May release. To accommodate the earlier release, the departmental budgets reflect only the known and approved State and federal programs changes as of April 2020, which will take effect July 1, 2020. The Supplemental Budget will be prepared once there is a State Budget and issued September 8, 2020 prior to adopted budget hearings in late September 2020.

COVID-19: This Preliminary Recommended Budget does not reflect all anticipated impacts of COVID-19 pandemic medical emergency and the Shelter-at-Home Order. The reduction in economic activity due to the Stay-at-Home Order, unemployment, and temporary closures of businesses have, and will, result in a decline in sales tax, vehicle license fees, and personal income tax. The deferment of payment of sales tax and the extension of tax filing and payment deadlines create a challenge for projecting revenues and cashflow for the State and the County. The County Administrator will work with Departments to update the Preliminary Recommended Budget based on any State and federal funding changes, and/or updated budget assumptions resulting from impacts to Solano County from external factors due to COVID-19. Any necessary revisions to the Preliminary Recommended Budget will be outlined in a Supplemental Budget document which will be issued on or before September 8, 2020.

Supplemental Nutrition Assistance Program (SNAP): Regulations require that able-bodied adults without dependents (ABAWD) must meet work requirements or be limited to three months of CalFresh in a 36-month period, California has long had an exemption for this requirement for most counties, including Solano County. Effective December 5, 2019, California was to lose this exemption per the December 5, 2019 USDA Final Rule on time limits for ABAWDs. On March 13, 2020, a federal judge issued a preliminary injunction which temporarily blocked implementation of this change in the Final Rule. On March 18, 2020, the President signed the Families First Coronavirus Response Act (H.R. 6201) which temporarily suspends these Final Rule time limit changes through the end of the month subsequent to the month in which the national COVID-19 emergency declaration is lifted. As of this writing, 4,898 Solano County CalFresh recipients are ABAWDs (12% of CalFresh recipients) and may, for the first time, be subject to a work requirement. However, there are many individual exemptions to the work requirement and they include: over age 49, pregnant, attending school half-time, physically or mentally unable to work, receiving or having applied for unemployment insurance, and participating in a drug or alcohol treatment program. Counties that have previously lost the blanket ABAWD exemption report that they have been able to document an individual exemption for most ABAWD individuals. As of this writing, E&ES is contacting and screening all ABAWD CalFresh recipients. It is not yet known how many current or future ABAWD CalFresh recipients will be required to meet a work requirement.

Affordable Care Act (ACA): The Affordable Care Act (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 PH 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 Welfare and Institutions Code §17000. As the ACA has reached the ten-year anniversary, any successful attempt to repeal the ACA will 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. 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.

Mental Health Service Act: Several bills have been presented in the State Legislature that seek to increase the flexibility of how counties can use Mental Health Service Act (MHSA) funds, as well as some bills that seek to divert MHSA funds to housing initiatives. This will be important to monitor as potential diversion of MHSA funds could put ongoing programs in jeopardy.

CalWORKS and Child Care: Effective October 1, 2019, all approved and ongoing CalWORKs participants are authorized for Stage 1 Child Care. Families are granted full-time child care regardless of engagement in Welfare to Work approved activities. Prior to this change, only parents engaged in work activities would receive child care for the hours they attended allowable work activities (employment, education programs, or community service). This child care expansion reflects Governor Newsom's commitment to comprehensive early childhood interventions as a key strategy to interrupt inter-generational poverty. Child care costs associated with this authorization will rise, which translates into more funds to support the County's collaboration with Solano County Family and Children's Services. With this change, the State will separate Stage 1 Child Care from the county single allocation block grant and transfer it to a new State early-childhood development department. It is not yet clear how this change will affect the Division's administrative functions.

In-Home Supportive Services: Public Authority and SEIU 2015 labor contract expires on June 30, 2020. As such, the outcome of the negotiations may require an adjustment to the MOE. Any negotiated changes in wages or benefits may result in increased costs and adjustments to the FY2020/21 Budget may be required. Currently, the non-federal share of cost for negotiated wage and benefit increases in In-Home Support Services is 65% State and 35% County. In the FY2019/20 State budget, the State revised this formula to flip to 65% County and 35% State for negotiated provider increases once minimum wage equals $15/hour which is currently scheduled for January 1, 2022. The change in sharing ratios may have an impact on the In-Home Support Services' FY2021/22 Budget.

2011 Public Safety Realignment/AB 109 Funding: The Preliminary Recommended Budget reflects the County's share of the estimated total AB 109 base and growth funding allocations statewide. The budget recommendation 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 FY2020/21, 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 FY2020/21 based on actual FY2019/20 year-end figures in light of the economic impact of COVID-19 and any related loss of statewide sales tax and vehicle licensing fees revenue reflected in the State's FY2020/21 Adopted Budget.

Proposition 172 Public Safety Funding: Proposition 172 is a key revenue source for our County Public Safety Departments and is based on ½ cent statewide sales tax funding for Public Safety Services. Prop 172 was projected at $35.2 million in the Preliminary Budget recommendations. The swift reaction by consumers and businesses to the outbreak of COVID-19 in the U.S. has caused a huge decrease in spending on certain goods and services. The national and state response, combined with the uncertainty of how long the presence of the virus will disrupt the U.S. economy, has made revenue forecasting particularly challenging. Staff is working with HDL, the County Sales Tax consultant, to monitor the statewide trend in Prop 172 funding and anticipate bringing additional information to the Board during budget hearings, if appropriate.

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 pretrial assessment. 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. While the legislature is anticipated to provide funding for this mandate, it is undetermined if the funding would be sufficient to cover actual costs or if there would be an impact to the County's other funding sources. Also, there is discussion on how to ensure neutrality in these assessments so they are not racially subjective or have a disparate impact. SB 10 passed the legislature and was signed into law in 2018, but an opposition referendum brought by the bail bonds agencies 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* – The Solano County jails are already at an all-time low and it is possible that SB 10 could reduce the average daily inmate population even more. Many offenders typically remain incarcerated until their case is adjudicated because they cannot afford bail; under SB 10, this would no longer apply. 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.
- *Public Defender* – Depending on the number of motions filed by the District Attorney as well as resulting hearings, the Public Defender's workload may increase proportionately.
- *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 and victim safety in setting the amount of bail, and if so, must it do so; 3) whether the State Constitution allows bail to be denied altogether in a non-capital case; and 4) whether SB 10 would have any effect on the resolution of the issues presented by this 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. The case is still in pending status with the Supreme Court.

Recently, due to COVID-19 pandemic medical emergency and concerns for safety in the jails, the Judicial Council of California set bail at $0 for all but the most violent crimes. This practice and its outcomes could influence the vote on SB10 and the Supreme Court's decision on Humphries.

RPSC: Reasonable Professional Standards of Competency (RPSC) have been established as a result of U.S. Supreme Court Cases (*Miller*) and California statutes. RPSC requires defenders currently representing juvenile clients and clients under 26 who are facing potential punishment of Life Without Possibility of Parole (LWOP) or its "functional equivalent" to utilize experts, compile relevant records, conduct necessary investigations, and present a record of factors as they relate to client's diminished culpability at sentencing. The RPSC requires the Public Defender's Office to obtain psychological evaluations and evidence for mitigation, such as letters from family members, friends, and school personnel. RPSC will increase the quantity and costs for investigations, experts, and attorney and support staff time for these cases.

Property Tax Appeals/Prop 8 Values: As of May 10, 2020, there are 408 active property tax appeals on file with the Clerk of the Board. Property owners can appeal the value enrolled by the Assessor to the local Board of Equalization, the Assessment Appeals Board. The difference between the Assessor's value and the property owner's estimate of value is the assessed value "at risk" which is currently $8 billion, over multiple years. The resolution of these appeals may have a significant impact on the County's property tax revenues. 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. Nearly 90% of all appeals get resolved without going to hearing.

The recovering 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, 2019, 8,907 of the County's 148,649 assessor parcels remain on Proposition 8 status, compared to 78,000 parcels in 2012. The Assessor's Office continues to monitor any potential impact the COVID-19 pandemic has on assessed value.

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 increased the County's gas tax revenues by 75% since its passage in 2017. Some recent proposals 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 these proposals becomes legislation. The impacts of the COVID-19 pandemic medical emergency on the economy and resulting reduction in fuel usage will likely affect gas tax revenues in FY2020/21, and some project delivery deferrals may occur to mitigate for any reduced revenues.

SUMMARY OF RECOMMENDATIONS

For Board consideration are recommended budgets as outlined in the following pages of this document. In submitting a balanced budget, the County Administrator utilized an available fund balance of $24.7 million as reflected in the FY2019/20 Midyear projection. This fund balance projection may be impacted further by COVID-19 pandemic medical emergency response and Shelter-at-Home expenditures and revenues through June 30, 2020. If the FY2019/20 Midyear projection for Fund Balance is not met, or there is an unanticipated shortfall in the FY2020/21 General Fund operating budget the County Administrator will prepare additional recommendations for Board consideration in the Supplemental Budget document. However, if the amount of the General Fund's Year-end Fund Balance at June 30, 2020 exceeds the Midyear projections for FY2019/20, 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 FY2020/21 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 $4 million to General Fund Reserves.
3. Any amount up to $5 million to the CalPERS Reserves and/or 115 Trust.

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