COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: May 28, 2021

TO: Board of Supervisors

FROM: Birgitta E. Corsello, County Administrator

SUBJECT: FY2021/22 Recommended Budget

The FY2021/22 Recommended Budget for the County of Solano reflects a financial plan that enables the Board to continue delivery of county services and programs, funds existing and ongoing COVID-19 response, and allocates staff to continue to work on the LNU Lightning Complex Fire recovery, one of the worst wildfire disasters in California history.

In preparing the Recommended Budget, 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 negotiated and approved labor agreements with County Bargaining Units, all while continuing to respond to demands and complications of the COVID-19 pandemic. Departments were asked to limit growth in General Fund costs where possible as the County was working to balance the pace of expenditure growth versus revenue.

This Recommended Budget reflects the continued recovery in local County revenues and the impact of a statewide change in methodology for allocating ABX1 26 pass-through and residual taxes. Additionally, one statewide revenue source we receive locally, Proposition 172 sales tax for public safety, is trending up driven by stronger than anticipated statewide sales tax revenue despite COVID-19 restrictions on many businesses. All other intergovernmental revenues, both State and federal may require adjustment once State and federal budgets are finalized.

The County Administrator's Office is recommending a return to a more typical budget approval process for FY2021/22. In response to the COVID-19 global pandemic emergency, the prior year budget approval process was modified to include the presentation of a Preliminary Recommended Budget in June 2020 followed by an extended Supplemental Budget process over the summer months to allow for adjustments resulting from a delayed State Budget approval in order to capture impacts to county revenues from the COVID-19 pandemic emergency. Final Budget Hearings were then conducted in September 2020. As we look to the FY2021/22 Recommended Budget, the County Administrator is recommending that the Board of Supervisors conduct Budget Hearings beginning at 9:00 a.m. on June 24, 2021 and adopt a County Budget for FY2021/22 at the conclusion of the hearings. During the hearings, the Board will be requested to consider the recommendations included in the FY2020/21 Recommended Budget as outlined herein.

The FY2021/22 Recommended Budget includes a section dedicated to the County Statistical Profile, which captures some of the economic impacts of the COVID-19 pandemic medical emergency. This section provides information on Solano County's current economic outlook and highlights indicators that we have monitored since the Great Recession and are tracking because of the COVID-19 shutdown of the economy and the substantial impact on life and health. This information includes population growth, unemployment, graduation rates, agricultural values, changes in personal income, commuter trends, housing market statistics and 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) COVID-19 Pandemic Update; 5) Overview of the Federal and State Budgets; 6) Economic Risks; 7) FY2021/22 General Fund Recommended Budget; 8) General Fund Fiscal Projections; 9) Pending Issues; and 10) Summary of Recommendations.

BUDGET OVERVIEW

TOTAL FINANCING REQUIREMENTS - ALL GOVERNMENTAL FUNDS FY2021/22								
FUND NAME		FY2020/21 ADOPTED BUDGET		FY2021/22 RECOMMENDED		CHANGE	% CHANGE
GENERAL FUND	$	301,171,784	$	325,611,371	$	24,439,587	8.1%
SPECIAL REVENUE FUNDS	$	847,166,242	$	855,529,115	$	8,362,873	1.0%
CAPITAL PROJECT FUNDS	$	33,795,695	$	28,071,956	$	(5,723,739)	(16.9%)
DEBT SERVICE FUNDS	$	15,350,661	$	17,206,556	$	1,855,895	12.1%
TOTAL GOVERNMENTAL FUNDS	**$**	**1,197,484,382**	**$**	**1,226,418,998**	**$**	**28,934,616**	**2.4%**
BUDGETED POSITIONS		3,129.58		3,132.83		3.25	0.1%

The FY2021/22 Recommended Budget for Governmental Funds is balanced and totals $1,226,418,998 (*Schedules 1 and 2*). The Recommended Budget represents an increase of $28.9 million or 2.4% when compared to the FY2020/21 Adopted Budget and utilizes estimates for local, State, and federal revenues, as well as the use of Fund Balances with draws from reserves.

The budget reflects an increase of $8.4 million in the Special Revenue Funds, primarily due to increases in Public Safety and other funds. The Capital Project Funds have decreased by $5.7 million primarily due to the prior year funding for construction of a Solano Residential Mental Health Diversion Facility, funded by a State Community Services Infrastructure Grant and fluctuations in the capital projects funded as part of the County's Capital Project Plan. The increase in the General Fund of $24.4 million is primarily due to a change in tax revenue allocation from ABX1 26 pass-through and residual taxes resulting from a court decision changing the statewide allocation methodology. The increases in various revenues are offset by increases in appropriations in General Fund departments, primarily reflecting increased labor costs and increased General Fund contributions to Public Safety, Health & Social Services, and IHSS when compared to the FY2020/21 Adopted Budget. The Debt Service Funds reflect an increase of $1.9 million when compared to the FY2020/21 Adopted Budget. Overall, the FY2021/22 Recommended Budget for All Governmental Funds increased by 2.4% when compared to the FY2020/21 Adopted Budget.

The FY2021/22 Recommended Budget uses the March 2021 Midyear Financial Report projected Fund Balances for 6/30/2021 and draws down $21.5 million from various 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. FY2021/22 uses some draws from designated reserves for accrued leave and capital renewal to fund liabilities for employee accrued leave payoff costs and costs for the major maintenance and capital improvements of County buildings.

The Recommended Budget reflects a workforce of 3,132.83 FTE positions, excluding extra-help positions and make assumptions that most existing vacancies would be filled. Budgeted positions reflect a net increase of 3.25 FTE compared to the FY2020/21 Adopted Budget. This increase is the result of a net 0.75 FTE decrease in positions during the fiscal year, and a net 4.0 FTE increase included in the FY2021/22 Recommended Budget for the Board's consideration. The Recommended Budget positions changes are the net of 27.0 FTE additions, 19.0 vacant FTE deletions, 4.0 FTE expiring limited-term, and 3.0 FTE transfers between departments. 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, staffing for changes in workload or services, implementation of new mandates, and use of automation and streamlining.

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 within 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

The following pages include a financial overview of the FY2021/22 Recommended Budget.

FINANCIAL SUMMARY

The Governmental Funds Spending Plan by Function graph portrays a total of $1.2 billion. The graph indicates the percent of the total for each functional area required within the Governmental Funds.

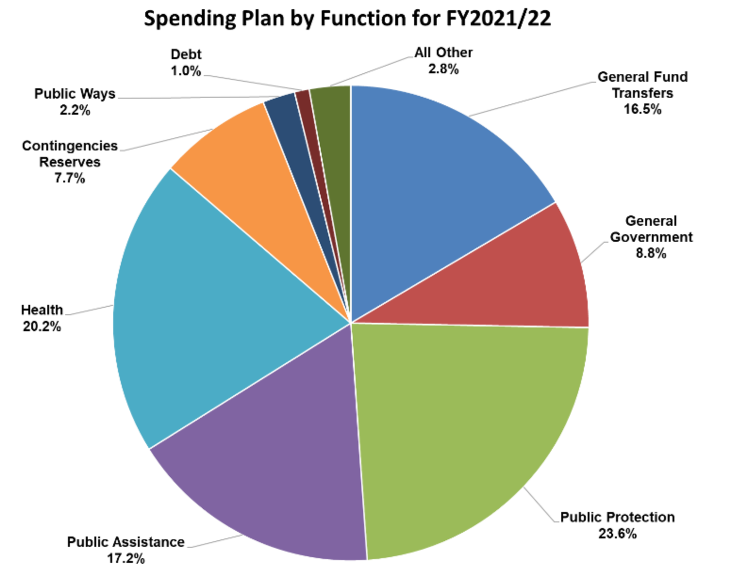
Public Protection represents the single largest category of County appropriations at 23.6% in the FY2021/22 Budget, which is an increase from 22.6% in the FY2020/21 Adopted Budget. Public Protection spending is projected to increase $18.7 million in FY2021/22 with the largest increases being in labor costs including wages, medical and retirement, inmate costs, insurance costs, and Central Data Processing charges.

Public Assistance, at 17.2%, and Health, at 20.2%, represent the social safety net function of County government, which together represent a slight decrease from FY2020/21. Health spending is projected to decrease by $1.4 million in FY2021/22, primarily due to decreases in contracted direct services related to COVID-19 and expenditures associated with Inter-Governmental transfer (IGT) transactions.

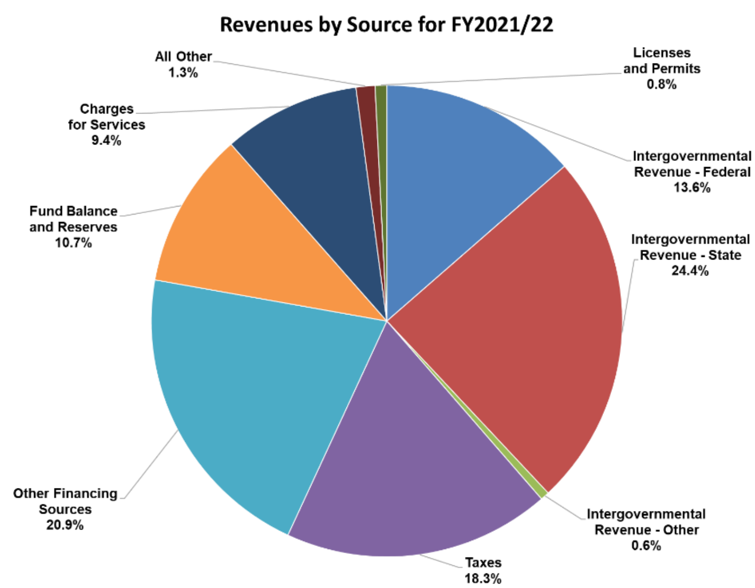
General Fund Transfers increase from a 14.7% share of the FY2020/21 Adopted Budget to a 16.5% share of the FY2021/22 Recommended Budget, reflecting the increases in Public Safety costs and increases in Public Assistance related to COVID-19.

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 38% of the Recommended Budget and generally have specific requirements on how funding can be used. Intergovernmental Revenue from State and federal agencies reflects a decrease of $9 million primarily due to one-time federal CARES Act funding in FY2020/21. These revenues are subject to State and federal budget actions for FY2021/22. Taxes represent 18.3% of the FY2021/22 revenue projections, which is up from the 17.2% share in FY2020/21, primarily due to increases in ABX1 26 residual taxes and passthrough payments resulting from a change in methodology due to a recent court decision.

Other Financing Sources, which includes the transfer of funding between government budgets, represents 20.9% share of the FY2021/22 projected revenues, which is up from 19.6% share in FY2020/21. Fund Balance and Reserves represent a 10.7% share of the FY2021/22 revenues, which consistent with FY2020/21.



GOVERNMENTAL FUNDS
Total: $1,226,418,997



The General Fund Spending Plan (*Fund 001*) graph portrays a total of $325.6 million. The Public Safety category represents the single largest category of expenditures at 44.3% in FY2021/22, which is an increase from a 43.9% proportional share in FY2020/21. 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 32.3% share in FY2021/22, a decrease from a 32.7% share in FY2020/21. Functions listed under this category include Agricultural Commissioner, Resource Management, Registrar of Voters (ROV), and General Government, courts MOE, and other MOEs.

Health & Social Services is the third largest category of General Fund use at 9.9% of the total, which is up from a 9.3% share in FY2020/21. The General Fund contribution to Health & Social Services is projected to increase by $4 million in FY2021/22. However, the contribution is subject to change pending the outcome of State and federal funding resulting from external factors due to COVID-19.

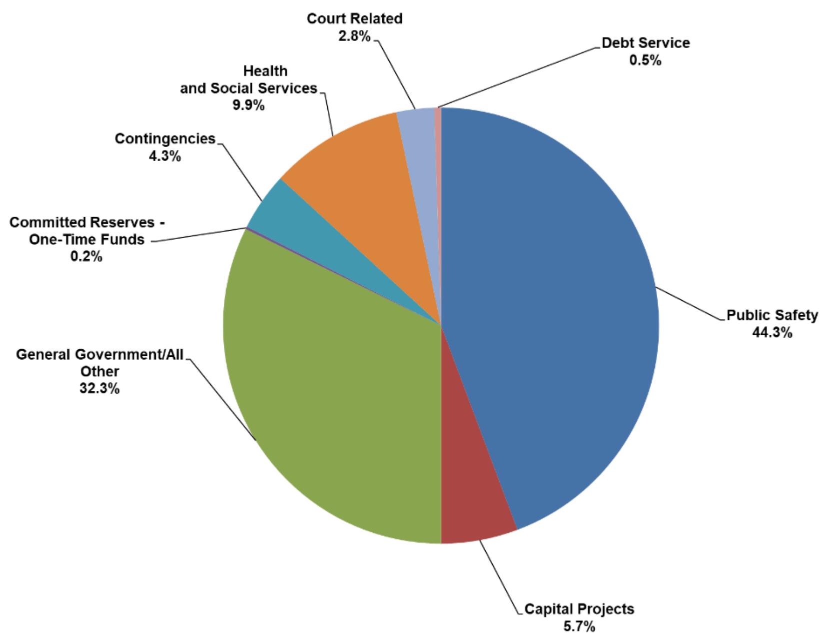
The FY2021/22 Recommended Budget excludes the allocation of one-time funds to committed Fund Balances to address impacts of known future obligations for capital renewal costs.

The Sources of General Fund Revenue graph provides information concerning General Fund financing for County operations. General Fund revenue is projected to increase by $24.4 million from the FY2020/21 Adopted Budget, primarily due to impacts from a recent court decision resulting in increases in ABX1 26 residual taxes and passthrough payments, and an increased draw from Reserves to fund capital projects.

Revenues derived from property values account for over half of General Fund revenues, with Property Taxes at 50.1% and ABX1 26 residual taxes and passthrough at 11.3%. Property taxes include secured, unsecured, supplemental, unitary, property tax in lieu of Vehicle License Fee (VLF), and property transfer tax. The Budget projects a net increase of $17.1 million in these property related revenues when compared to the FY2020/21 Adopted Budget.

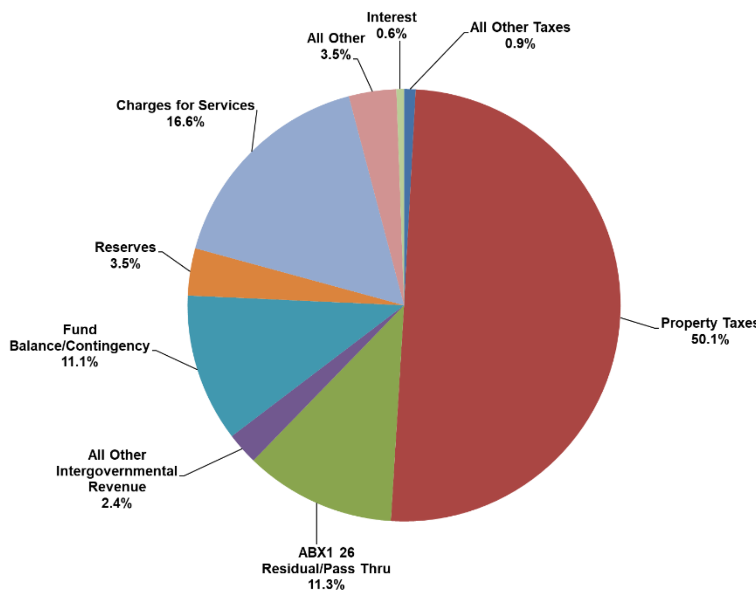
The second largest source of revenue is Charges for Services at 16.6%, which includes fees, permits, licenses, property tax administration fees, and reimbursements for County costs of service. As shown, the third largest category is Fund Balance/Contingency at 11.1%. The General Fund projected Fund Balance at the end of FY2020/21 becomes a means of financing for the FY2021/22 Recommended Budget.

General Fund Spending Plan for FY2021/22



GENERAL FUND
Total: $325,611,371

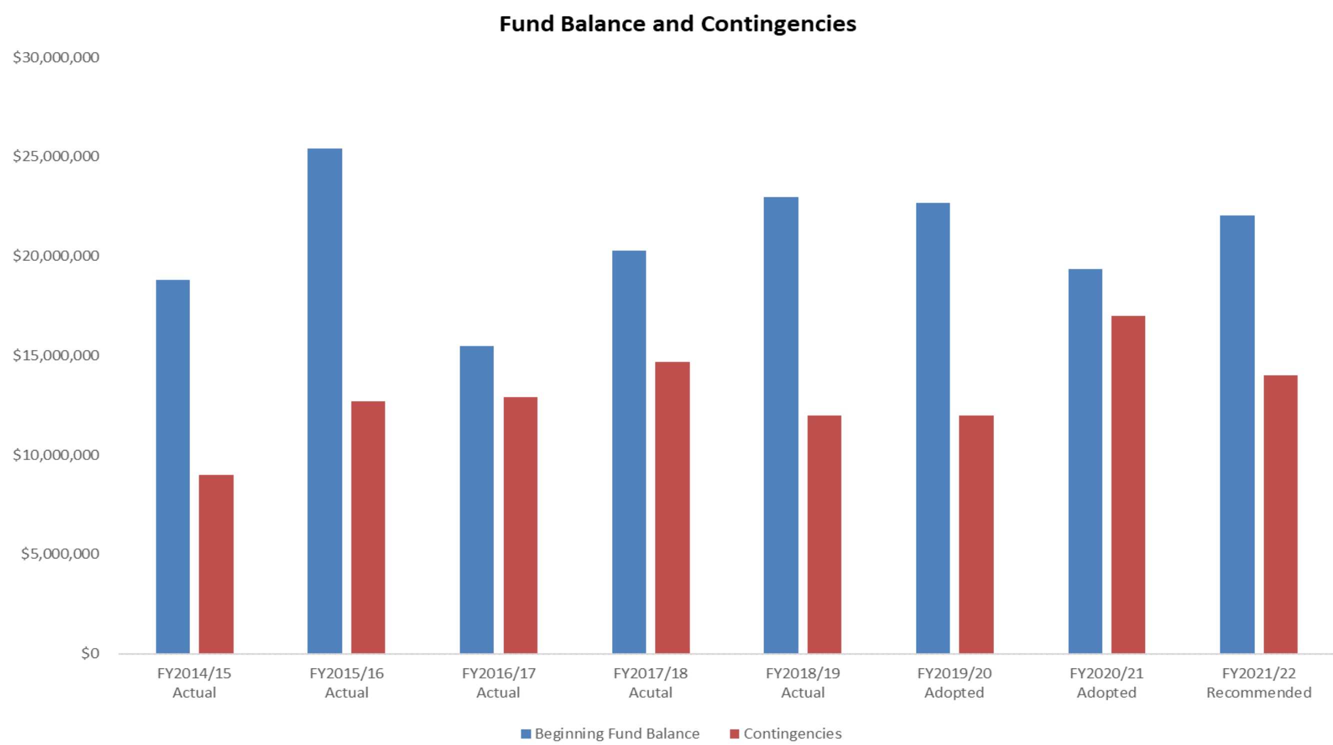
Sources of General Fund Revenue for FY2021/22



GENERAL FUND RESERVES, DESIGNATIONS & COMMITMENTS AND FUND BALANCE

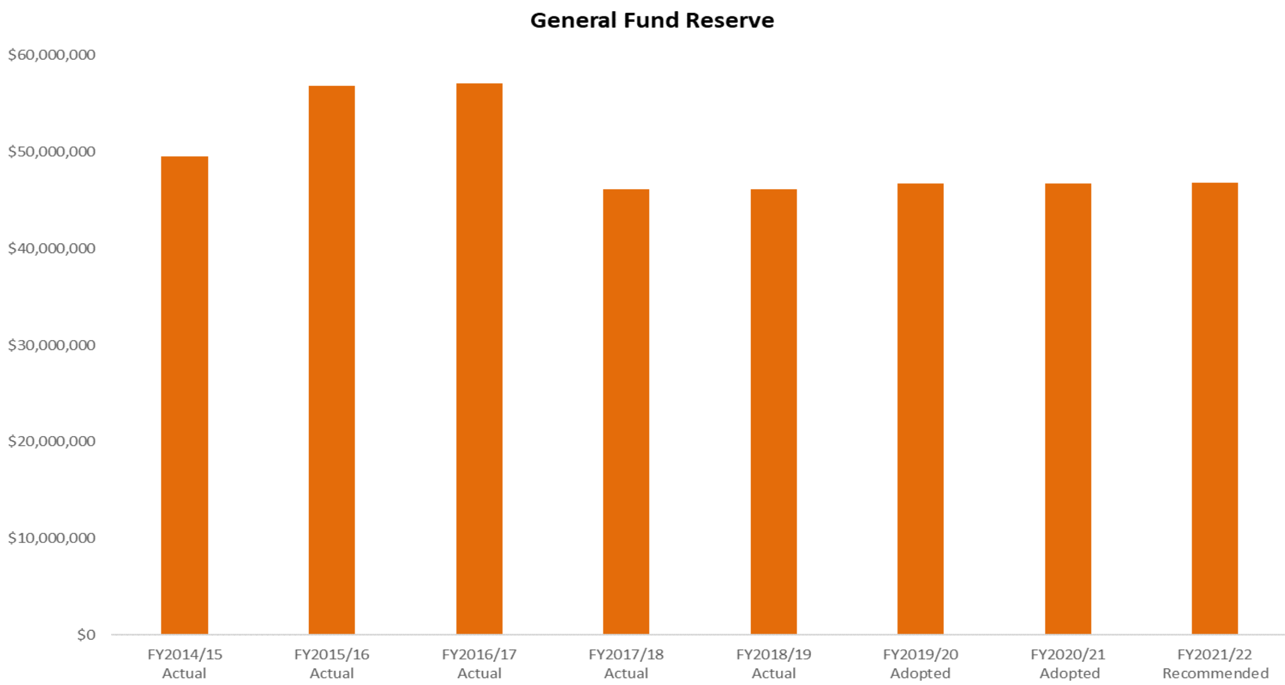
The Board has a set of adopted financial policies and overarching principles intended to position the County to address the range of investments necessary to sustain and provide services. In establishing the Reserves, the County's intent is to have resources for the "rainy day" created by economic downturns; 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, healthcare 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 has consciously set monies aside to fund and finance some of the General Fund obligations, liabilities, and responsibilities. The strong fiscal policies established in the 1990's and maintained by the Board and the execution of those policies by the County departments continues to strengthen the County's financial position and has enabled the County to manage through the Great Recession, other economic downturns and in FY2020/21 during the COVID-19 pandemic and LNU Fire. 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. Our Nation, State, and County economy continue to face significant uncertainty as a result of the COVID-19 global pandemic medical emergency that has 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, 2021 is projected at $36 million and is based on the FY2020/21 Midyear projection; this may change as a result of the continuing potential impacts on actual revenue and expenditures due to the COVID-19 pandemic. Estimated Fund Balance includes $14 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 FY2021/22 is to maintain a $14 million contingency amount within the General Fund which is approximately 4.3% of Proposed General Fund Expenditures. Based on the FY2021/22 Recommended Budget the contingency could be 10% of the General Fund or up to $32.6 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 FY2021/22 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:

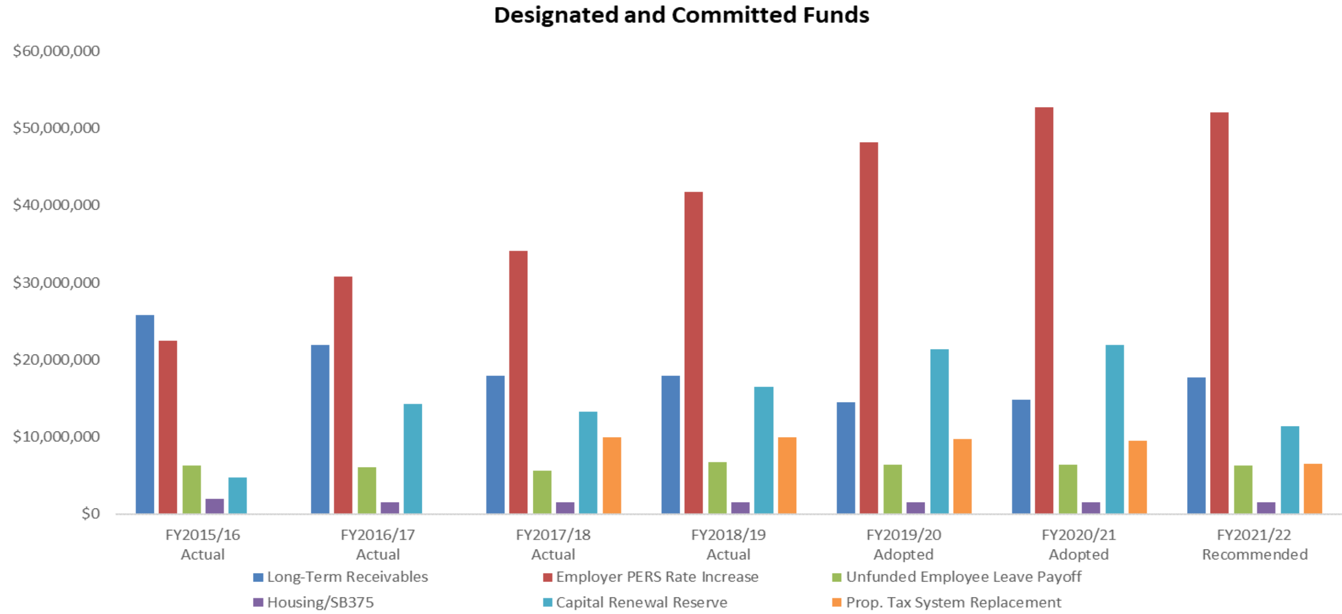
- When the County faces economic recession/ depression and the County must take budget action.
- When the County is impacted by a natural disaster or any other emergency.
- When the County experiences unexpected declines in revenues and/or when unpredicted large one-time expenditures arise.

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 FY2021/22 Recommended Budget for the General Fund - General Reserve is projected at $46.8 million. Based on Board policy, the Reserve target is 10% of the County's total budget, excluding interfund transfers, which calculates to be $98 million in FY2021/22. The current County General Reserve is $46.8 million, which is 47.9% 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, 2020, (most recent actuarial report), the County's unfunded actuarial accrued liability for both the Miscellaneous Plan and Safety Plan is $632 million (72% Funded Ratio). This figure includes the former Court employees and Solano County Fair Association 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 FY2021/22 Recommended Budget for the Employer PERS Rate Increases includes both the value of the IRS 115 Trust at $31.8 million and the Reserve for Employer PERS Rate Increase at $20.3 million for a total reserve of $52.1 million. The FY2021/22 Recommended Budget anticipates $0.6 million in additional contributions to the Reserve for Employer PERS Rate.

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 and 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) and is scheduled to be updated in FY2021/22. The 2016 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 and when possible, available one-time funding to address capital facility needs.

On March 9, 2021, the General Services Department presented to the Board a status update on capital projects included in the FY2021/22 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 $21.4 million. It is recommended that the Board utilize $10 million of this balance to fund projects in FY2021/22 (see Capital Projects budget for details). The FY2021/22 Recommended Budget for Capital Renewal Reserve is $11.4 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. The FY2021/22 Recommended Budget reflects a Property Tax System Replacement reserve remaining balance of $6.5 million which is anticipated to be fully expended upon project completion in FY2022/23.

Unfunded Employee Accrued Leave Payoff

In accordance with the Board's Fund Balance Policy, in FY2005/06 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 FY2021/22. The reserve has a current balance of $7.8 million. It is recommended that the Board utilize $1.5 million of this balance to fund Employee Accrued Leave Payoff in FY2021/22. The FY2021/22 Recommended Budget for the Unfunded Employee Leave Payoff reserve is $6.3 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 FY2021/22 Recommended Budget for Long-Term Receivables is $17.7 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 the FY2021/22 Recommended Budget, the current balance in the Housing/SB 375 reserve is $1.6 million. The County Administrator anticipates that some of these funds may be needed in FY2021/22 to provide local matching funds to State funding proposed in the Governor's FY2021/22 Budget and would be used in addressing housing needs for at risk or vulnerable populations.

COVID-19 PANDEMIC UPDATE

COVID-19 (Coronavirus) is the contagious virus causing the novel coronavirus global pandemic. Since 2020, the County and its employees have worked to continue to provide services to the residents of Solano County while keeping our employees safe. Led by our Solano County Public Health team, the County has coordinated, communicated, and collaborated with a multitude of partners, stakeholders, and residents to respond to the COVID-19 pandemic. Efforts include response strategies, such as communicating with healthcare providers and partners about the most recent State and national guidance; responding to outbreaks and providing support to businesses and facilities; ramping up drive-through and walk-in testing; conducting surveillance testing to quickly detect positive cases in high-risk settings; bolstering case investigation and contact tracing capacity; informing partners and the public about guidance, resources and updates; providing COVID-19 lab testing services to Solano County and three other counties; and COVID-19 screening at fire evacuation centers.

In December 2020, the Solano EMS Agency, with the County's healthcare partners and Public Health Officer, began focusing on vaccinating Solano County's population against COVID-19. The EMS team, comprised of hospital partners (Kaiser and Northbay), fire departments, Touro University of California, Medic Ambulance (the EMS Ambulance provider), Partnership HealthPlan, and County staff, has administered vaccinations to individuals commencing with first line responders, high risk and at risk populations, and focusing on state prioritized populations; visiting congregate care sites, hosting "pop-up" targeted sites, and supporting a mass vaccination site at the fairgrounds; and is currently expanding outreach to homebound, homeless, and incarcerated persons in Solano County. The multi-partner mass vaccination and community pop-up clinics have represented a unique and highly efficient model for vaccination. To date the County has provided 307,400 vaccine doses to 170,100 individuals, with approximately 137,300 individuals receiving a full course of vaccine. In addition to vaccination activities, the Solano County EMS staff have obtained and distributed critical supplies of personal protective equipment, testing supplies, and related materials throughout the pandemic to healthcare partners in the County — all in an effort to protect community members and curb the spread of Coronavirus in Solano County.

Thanks to the hard work of the team that came together on behalf of Solano County and the growing number of vaccinated residents we are seeing a steady reduction in new COVID-19 cases and fewer deaths and hospitalizations. Over the course of the response to COVID-19, several stimulus packages have been passed providing additional funding to state and local governments to assist in the response to the pandemic. Below is information regarding significant funding streams received or anticipated to aid in Solano County's recovery efforts.

COVID-19 Funding:

- CARES Act - The County was allocated $44.8 million in Coronavirus Relief Funds (CRF) funding through December 30, 2020. All CRF funds have been spent and were applied to various eligible purposes, including: payroll for public health and safety employees; improvements to telework capabilities; medical expenses; and public health expenses, Project Roomkey expenses, funding the Solano County COVID-19 Rental Assistance program, and the Small Business COVID-19 Grant program administered through the Workforce Development Board. In FY2019/20 the County spent $10.4 million and in FY2020/21 the County spent the remaining $34.4 million of its CRF allocation.
- The Napa Solano Area Agency on Aging (AAA) received $1.2 million in federal CARES Act funds from the California Department of Aging (CDA) for Area Agencies on Aging to mitigate issues for older adults caused or exacerbated by the COVID-19 pandemic. Service priorities for the allocation include access, transportation, and social isolation for older adults. The funding provided Napa County with an additional $310,094 and Solano County with an additional $870,881. In addition,

the Napa Solano AAA received $372,620 for both Congregate and Home-Delivered Meals funded through the Families First Coronavirus Response Act (H.R. 6201).

- The County Medical Services Program (CMSP) Governing Board's COVID-19 Emergency Response Grant (CERG) Program was established to aid in the delivery of services that support local preparedness, containment, recovery, and response activities in CMSP counties. Solano County was awarded $1 million to assist with COVID-19 related medical monitoring, testing, transportation, personal protective equipment, supplies, and wrap-around support with self-isolation for high-risk homeless and uninsured individuals.
- The U.S. Department of Health & Human Services provide the Solano County Family Health Services clinics with $407,800 to provide financial assistance to physician practices, hospitals and other providers negatively impacted by the COVID-19 pandemic. The funds were provided for healthcare related expenses attributed to COVID-19 not reimbursed from other sources and to address lost revenues in the delivery of patient care.
- Public Health received notice from the California Department of Public Health (CDPH) Immunization Branch that Solano County will be allocated COVID-19 supplemental funding of $2 million through June 30, 2022.
- Emergency Rental Assistance Program (ERAP) - Solano County received $13.3 million in direct federal allocation from the U.S. Treasury to fund ERAP, which enables renters impacted by the COVID-19 pandemic to receive up to 100% of rental arrearages owed for the period between April 1, 2020 and March 31, 2021, and future rent for up to 12 months initially, and extended to 18 months through the American Recovery Act. It also provides for payments for overdue utility and home energy costs for the same time period. To further these tenant protections, on January 29, 2021, Governor Newsom signed SB 91, the COVID-19 Tenant Relief Act, which established new protections for tenants impacted by COVID-19 and extended previous emergency tenant protections through June 30, 2021. SB 91 also provided guidance on how the State would administer its $1.5 billion in federal funding provided through ERAP. Under SB 91, Solano County residents will benefit from an additional $14.3 million in Emergency Rental Assistance Program funds as administered by the State. These efforts will enable low-income households most impacted by the pandemic to stay in their homes and prevent displacement which will be crucial to an equitable recovery.
- Epidemiology and Laboratory Capacity (ELC) Enhancing Detection funding through Coronavirus Response and Relief Supplemental Funds – Public Health received $4.9 million in FY2020/21 to support testing, contact tracing, vaccination, surveillance, containment, and mitigation through the federal Centers for Disease Control and Prevention (CDC). In FY2021/22 the County is anticipating Enhancing Detection Expansion funds in the amount of $16.4 million covering the period of January 15, 2021 through July 31, 2023. This allocation is to augment the funding received in FY2020/21 and expands the use of funds to include vaccination activities and an expansion of health equity efforts.
- Family Health Services received a $3.8 million American Rescue Plan Act funds notice of award from the Health Resources and Services Administration (HRSA) on April 1, 2021. These are one-time funds for a two-year period beginning April 1, 2021 through March 31, 2023. The funds may be used to support a wide range of activities in the following categories: COVID-19 Vaccination Capacity, COVID-19 Response and Treatment Capacity, Maintaining and Increasing Capacity, Recovery and Stabilization, and Infrastructure (Minor Alteration/Renovation, Mobile Units, and Vehicles). The H&SS Division is in the process of developing a spending plan for HRSA approval. Staff are determining if some of the funds can be appropriately used to offset current operating costs which will reduce the use of 1991 Public Health Realignment. The required budget adjustments to incorporate the spending plan in FY2021/22 will be included in the FY2021/22 Supplemental Budget.
- American Rescue Plan Act (ARPA) – On March 11, 2021, the President signed the American Rescue Plan Act of 2021 into law. The $1.9 trillion package is intended to combat the COVID-19 pandemic, including the public health and economic impacts. The ARPA allocates funding for public health and vaccines, assistance for vulnerable populations, educational and housing stabilization, economic recovery assistance, and direct assistance for families and individuals. Funding is outlined to be distributed through various state and federal agencies with potential for the County to receive ARPA funding through specific program allocations or grant opportunities. The funding allocation and the detailed guidelines for spending remain in development. As funding opportunities are identified staff will return the Board. In addition to the State and federal agency funding opportunities, the County is anticipated to receive a direct funding allocation in the ARPA of approximately $86.9 million. Initial guidelines on eligible uses of the direct funding allocation were released by the U.S. Treasury in May 2021 and remain under review. As additional guidelines become available on the direct funding allocation to the County, staff will return to the Board to address the process for allocating and appropriating ARPA funding.

In addition to the significant funding noted above, the County is also pursuing claims with the Federal Emergency Management Agency (FEMA) as part of its COVID-19 cost recovery strategy.

The Recommended Budget only partially addresses the continued impact of COVID-19 to the extent that state and federal funds received or authorized as of April 2021 have been included, with the exception of ARPA. The Budget will require adjustments to meet new challenges from the impacts of COVID-19 to the health of individuals and the economy should additional funds be allocated in the state and federal budget.

OVERVIEW OF THE FEDERAL AND STATE BUDGETS

Federal Budget Update

In March 2021, Congress finalized, and President Biden signed into law a $1.9 trillion COVID-19 relief package. The legislation, known as the *American Rescue Plan Act* (ARPA; PL 117-2), represents the sixth coronavirus aid measure passed by Congress. To date federal lawmakers have approved over $5.5 trillion for pandemic response efforts since the onset of the public health emergency in the United States in February/March 2020.

To follow is a breakdown of some of the major federal funding sources under ARPA.

<u>Coronavirus Local Fiscal Recovery Fund</u> – Pursuant to PL 117-2, flexible COVID-19 relief funding from the U.S. Department of the Treasury has been approved. Nationwide, county governments will receive $65.1 billion in Recovery Fund payments, with dollars allocated based on population. In addition, ARPA will provide fiscal aid to states ($193.5 billion), cities ($65.1 billion), tribal governments ($20 billion), and U.S. territories ($4.5 billion). Locally cities are receiving direct funding of over $58 million. Solano County will receive $86.9 million as a direct allocation.

Local government cities and counties will receive payments in two disbursements, with ARPA legislation stipulating that 50 percent of the funds must be allocated in May 2021; the remaining 50 percent must be released by the Treasury Department no earlier than 12 months from the date of the first payment.

Pursuant to PL 117-2, funds will be available for expenditure through December 31, 2024, and can be used for the following purposes:

- to backfill a reduction in revenue that has occurred since 2018-19;
- to respond to the COVID-19 public health emergency or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or to aid impacted industries such as tourism, travel, and hospitality;
- to make necessary investments in water, sewer, or broadband infrastructure;
- to support essential work by providing premium pay to certain workers or by providing grants to employers that have eligible workers.

<u>Coronavirus Capital Projects Fund</u> – PL 117-2 includes a $10 billion Coronavirus Capital Projects Fund that will allow entities to finance capital projects “directly enabling work, education, and health monitoring, including remote options, in response to the public health emergency.” While states, territories, and tribal governments will be eligible for the new program, the funding will *not* be directly available to counties and cities.

<u>Local Assistance and Tribal Consistency Fund</u> – ARPA includes $1.5 billion for eligible revenue sharing counties (public land counties that receive Payments-in-Lieu-of-Taxes (PILT)/Secure Rural School (SRS) payments). Pursuant to the Act, $750 million will be allotted in fiscal year 2022 and 2023. (A separate pot of funding totaling $500 million is available for eligible tribal governments). Eligible counties may use the funds for any governmental purpose, except for lobbying activity.

<u>Public Health</u> – PL 117-2 includes $14 billion to speed up the distribution and administration of COVID-19 vaccines. The funding may be used to support the development of community vaccination centers, as well as mobile vaccination units. The Act also includes $7.5 billion for the Centers for Disease Control and Prevention (CDC) to prepare, promote, administer, monitor, and track vaccines. Among other things, this funding can be used to support state and local public health departments.

<u>Public Health Workforce</u> – ARPA provides $7.66 billion for a public health jobs program that will allow public health departments to hire new, full-time public health workers.

Medicaid – The Act increases the federal contribution for Medicaid by 10 percentage points for state expenditures on home and community-based services provided between April 1, 2021 and March 31, 2022. This increase is in addition to the current 6.2 percentage point increase in the federal financial share for Medicaid that is in place until the public health emergency (PHE) ends. HHS has informed states that it expects to continue the PHE declaration through the current calendar year. The bill also provides a 100 percent FMAP for states that opt to provide coverage to the uninsured for COVID-19 vaccines and treatment without cost sharing.

FEMA Disaster Relief Fund – PL 117-2 includes $50 billion to help replenish FEMA's Disaster Relief Fund. The dollars will be available to reimburse state and local governments for various COVID-19-related costs, including vaccination efforts, deployment of the National Guard, and personal protective equipment. Funding will remain available through September 30, 2025. The funding also can be used to provide financial assistance for pandemic-related funeral expenses with a 100 percent federal cost share.

Temporary Assistance for Needy Families – The TANF/CalWORKs program will receive a $1 billion increase, reflecting an approximate six percent boost to the program. States such as California, which provide relatively higher cash grants, will be given a slightly higher share of the $1 billion relative to other states.

Elder Justice/Adult Protective Services (APS) – Building off the recent $100 million federal appropriation for APS, the Act guarantees an additional $100 million in FY2021/22. California recently received nearly $9.5 million from the COVID-19 legislation enacted this past December.

Child Care – The Act provides a total of $39 billion in emergency funds for the Child Care Development Block Grant (CCDBG) program, of which $15 billion is for child care subsides through FY2023/24. The remaining $24 billion will be available to states to make subgrants directly to child care providers.

Child Abuse Prevention and Treatment – The Child Abuse Prevention and Treatment Act (CAPTA) is receiving a $250 million increase with no state match required. The regular FY2020/21 appropriation was nearly $270 million. These one-time only funds will be available through September 2023.

Low Income Home Energy Assistance Program – LIHEAP will receive a $4.5 billion boost, with funding available through September 2022.

Substance Abuse Prevention and Treatment / Community Mental Health – The Act provides $1.5 billion for the Substance Abuse and Mental Health Services Agency's (SAMHSA) Substance Abuse Prevention and Treatment (SAPT) block grant and $1.5 billion for the Community Mental Health block grant.

Certified Community Behavioral Health Clinics – PL 117-2 includes $420 million for Certified Community Behavioral Clinics, which assist counties and other local entities that provide a range of mental health and substance use disorder services to vulnerable individuals.

Emergency Rental Assistance – The Act provides $21.55 billion for emergency rental assistance through the Treasury Department. It should be noted that this is in addition to the $25 billion that Congress appropriated in December 2020. Of this funding, $2.5 billion is reserved for low-income families that spend more than 50 percent of their income on rent or that live in sub-standard housing. Each state is guaranteed $152 million, with further allocations based on population. Funds can be used to provide financial assistance to eligible households for up to 18 months for rent, rental arrears, utilities/home energy costs, and other expenses related to housing. Furthermore, states can put up to 10 percent of the funds they receive toward housing stability services and up to 15 percent for administrative costs.

While counties with populations greater than 200,000 will receive direct funding from the Treasury Department, counties below the threshold will be eligible to receive funds through the state.

Emergency Housing Vouchers – PL 117-2 provides $5 billion for incremental emergency vouchers, renewals of vouchers, and fees for administering voucher programs through September 30, 2021. Qualifying individuals include those experiencing homelessness, those at risk of homelessness, those attempting to flee domestic violence/sexual assault/human trafficking, and those that are recently homeless. Public housing agencies will be notified of the number of emergency vouchers they are allocated within 60 days of enactment.

Homeless Assistance – ARPA provides $5 billion to HUD for homeless prevention and supportive services through the HOME Investment Partnerships program.

Rural Housing – PL 117-2 includes $100 million for rural housing through the U.S. Department of Agriculture for rental assistance.

Supplemental Nutrition Assistance Program (SNAP) – The Act extends the 15 percent increase in SNAP/CalFresh benefits for an additional three months (to September 30, 2021). Additionally, SNAP administrative reimbursement will receive another $1.135 billion over the next three years to partially account for the increased workload to process the COVID-19 spike in SNAP applications. The SNAP state administration budget is roughly $4.9 billion annually.

Pandemic EBT Program – The EBT benefit for youth eligible for school meals will continue through any school year during a designated public health emergency and the following summer period. The program has been running on short-term extensions until this time.

Older Americans Act Nutrition – Title III nutrition programs will be increased by $750 million under ARPA. The annual appropriation in FY 2021 was $951 million.

Special Supplemental Nutrition Program for Women, Infants and Children (WIC) – The Act includes $880 million in emergency funds, $490 million of which will enhance benefits for four months and $390 million of which will support outreach innovation and program modernization funding.

Credits for Paid Sick and Family Leave – PL 117-2 makes public sector employers (including counties) eligible to receive a dollar-for-dollar payroll tax credit available through September 30, 2021, should they choose to offer paid leave. With the exception of the federal government, there is no employer mandate to provide such leave. It should be noted that counties were not eligible for the refundable tax credit under the *Families First Coronavirus Response Act* (FFCRA; PL 116-127). Among other things, PL 117-2 increases the amount of wages for which an employer may claim the paid family leave credit in a year from $10,000 to $12,000 per employee. It also expands the list of reasons that an employer may provide paid family leave. These provisions generally would be effective for leave taken after March 31, 2021.

Child Tax Credit – The Act temporarily expands the Child Tax Credit (CTC), increasing the amount to $3,000 for children ages six to 17 and $3,600 for children under the age of six. The amount is gradually reduced for individuals earning over $75,000 and couples earning over $150,000. From July through the end of the year, eligible families will receive periodic payments of up to $300 per child per month for children under the age of six and $250 monthly for those six to 17 years of age. When families file their 2021 taxes, they are eligible for an additional six months of CTC payments through a tax refund. Prior to passage of ARPA, the CTC was set at $2,000 per child under 17.

Earned Income Tax Credit – The eligibility and amount of the Earned Income Tax Credit (EITC) will be expanded under PL 117-2. The eligibility age for claiming the “childless EITC” will be lowered from 25 to 19, except for full-time students, and the maximum credit amount will increase from $543 to $1,502.

Transit – PL 117-2 includes $30.5 billion to help assist with transit operating costs, including payroll and personal protective equipment. According to estimates released by Congressman John Garamendi, rural areas across the state are expected to receive over $27 million in public transit support, with Fairfield in line to receive over $2.5 million and Vacaville slated to receive nearly $790,000.

Airports – The Act includes $8 billion in federal assistance for airports. Airports that receive funding will be required to retain at least 90 percent of personnel employed as of March 27, 2020, through September 30, 2021. However, the Department of Transportation may provide a waiver from the requirement if it determines that an airport is experiencing economic hardship or the requirement reduces aviation safety or security.

Elementary and Secondary School Emergency Relief Fund – PL 117-2 includes nearly $123 billion in COVID-19 relief funding for K-12 schools nationwide, with schools in California expected to receive roughly $15.3 billion.

FFY2022 Budget - The federal fiscal year 2022 budget which begins in October 2021 remains in process through a series of federal special appropriations bills. The House and Senate Appropriations Committee are beginning the process of developing the 12 regular annual spending measures, and appropriators have topline budget numbers to work with for the FFY2022 budget year. The uncertainty of the ongoing pandemic will likely impact spending decisions over the remainder of the federal budget cycle.

California State Budget Update

At the time of the Governor's initial proposed budget release on January 8, the nation was on the cusp of a Presidential transition and the impacts of the COVID-19 pandemic on the State's health system had nearly reached nearly a breaking point due to the high rates of positivity and hospitalizations. However, the State's revenues were outperforming estimates by billions of dollars – attributable to enormous taxpayer capital gains and increased income tax withholdings. The County should be prepared to see the State's surplus be spent down largely in "one-time" or short-term outlays instead of increasing existing funding of state mandated programs and services so forecasting or relying on these trends in revenue at this time would be very speculative.

The January Budget contained what the Governor described as $34 billion in "budget resiliency" meaning budgetary reserves and surplus. The sources of the resiliency were $15.6 billion in the Proposition 2 Budget Stabilization Account (Rainy Day Fund) for fiscal emergencies; $3 billion in the Public-School System Stabilization Account; an estimated $2.9 billion in the State's operating reserve; and $450 million in the Safety Net Reserve. As of January 2021, the State was operating with a $15 billion surplus.

The Legislature approved, and the Governor has signed budget-related packages since the January 2020 budget amendments in FY2020/21 and ahead of the June 2021 date for FY2021/22 to enhance and boost existing programs. However, many of these are "one-time" funding allocations including funds for school reopening, and another related to wildfire prevention and suppression. The wildfire package contains over $500 million in new funding, much of which will flow through CalFire, for prevention and staff-up work ahead of this coming fire season.

<u>Health</u> - The Governor's proposed budget includes the creation of a new Office of Health Care Affordability, focused on quality and cost transparency. The budget also includes the California Advancing and Innovating Medi-Cal (CalAIM) initiative streamline and improve the Medi-Cal program and outcomes for Medi-Cal enrollees. There have been several hearings on the CalAIM proposal already in 2021 and it is a substantial proposal.

<u>Public Safety</u> - The final FY2020/21 State Budget included a Juvenile Justice (DJJ) realignment to counties and calls for the closure of DJJ facilities. The trailer bill to effectuate this was not supported by counties and contained errors. There is a trailer bill currently pending, as of this writing, to correct those errors. In addition to the corrective language, the proposed budget makes an additional investment of $50 million in one-time General Fund in FY2021/22 for county probation departments in light of the additional work that counties must take on.

<u>Wildfire</u> - There will likely be additional investments made in the final budget to prevent and suppress wildfire. The early action package, already enacted in April 2021, included the following funding streams:

- $155.1 million for the CalFire for forest health;
- $123 million for fire prevention grants;
- $15 million for prescribed fire and hand crews;
- $10 million for urban forestry;
- $10 million for CalFire Unit Fire Prevention Projects;
- $10 million for the Forest Improvement Program for Small Landowners;
- $8 million for the Forest Legacy and Reforestation Nursery;
- $5.3 million for workforce development;
- $4.1 million for home hardening;
- $3 million for ecological monitoring, research, and adaptation management;
- $2 million for defensible space inspectors.

<u>Housing and Homelessness</u> - The Governor is proposing a new round of $500 million in low-income housing tax credits to support low-income housing development. Additionally, the proposed budget includes $1.75 billion in one-time General Fund to purchase additional motels, develop short-term community mental health facilities, and purchase or preserve housing dedicated to seniors. Due to the higher revenues, it's possible these amounts would increase in the final budget; further there is growing support for ongoing programmatic funding for those persons housed through Project Homekey.

Initial information regarding the May Revision of the State budget indicates a historic $75.6 billion budget surplus, plus the additional $26.6 billion in federal relief funds for a total of over $100 billion in discretionary spending for FY2021/22. The May Revision typically reflects minor changes to the Governor's January proposal; however, the significant budget surplus has resulted in significant budget changes and potentially new programs. As of May 15, 2021, the Governor presented his proposed May Revision for FY2021/22 which was preceded by five days of Governor press conferences on various budget spending priorities proposing to utilize the additional federal CARES and ARPA funding, the substantial budget surplus of $75.6 billion, and addressing the excess Gann Limit disbursements required under Prop 13. Additional information on proposals included in the May Revision and the impacts to Solano County will be included in the FY2021/22 Supplemental Budget which will be issued in June 2021 prior to Budget Hearings.

ECONOMIC RISKS - POTENTIAL IMPACTS POST COVID-19 RECOVERY

Nationally

The Congressional Budget Office (CBO) released its ten-year Economic Outlook: 2021 to 2031 in February 2021, providing analysis of the impact of the COVID-19 pandemic. Citing expanded vaccinations and a reduced need for social distancing, the real (inflation-adjusted) gross domestic product (GDP) is projected to grow by 3.7% in 2021, returning to pre-pandemic levels but is projected to slow in future years due to slower labor force growth and absorption of those who lost their jobs due to the COVID-19 pandemic shutdown and restrictions. The Bureau of Labor Statistics (BLS) reports a 6.0% unemployment rate as of March 2021, and the CBO indicates unemployment should reach pre-pandemic levels by 2024. The 10-year Treasury note is projected to rise gradually to 3.4% by 2031, with interest rates expected to rise gradually. Interest rates on 3-month Treasury bills are expected to follow the 10-year note. Interest rates on federal borrowing are expected to rise, but may stay near zero through mid-2024, rising gradually after.

As of February, the CBO indicated inflation for personal consumption measures is anticipated to rise gradually and to rise above 2.0% by 2023. The Wall Street Journal reported in April that the Federal Reserve Bank of New York is expecting inflation levels to jump to 3.4% over the next year, settling at 3.1% by 2024. The CBO indicates a high level of uncertainty due to the pandemic, global financial markets, and public deficits and debt. Pandemic response will likely continue to influence economic activity for the foreseeable future. The CDC reports that nearly 46% of Americans have received one dose of the COVID-19 vaccine, with 34% receiving full vaccinations. At this time, experts such as Dr. Anthony Fauci, MD, chief White House medical advisor, feels it unlikely that herd immunity will be reached, and the pandemic will become endemic.

Federal debt held by the public may exceed 100% of GDP in 2021, rising to 107% by 2023. In response to the COVID-19 pandemic, there were five Federal stimulus bills approved in 2020, benefiting state and local governments: Coronavirus Preparedness & Response Supplemental Appropriations Act (HR 6074 – 116th Congress); Families First Coronavirus Response Act (HR 6201 – 116th Congress); Coronavirus Aid, Relief, and the Economic Security (CARES) Act (HR 748 – 116th Congress); Paycheck Protection Program and Health Care Enhancement Act (HR 266 – 116th Congress); and the Consolidated Appropriations Act (HR 113 – 116th Congress). These bills totaled nearly $4 trillion in relief to mitigate the impacts of COVID-19 to the American economy. In 2021, the American Rescue Plan Act of 2021 was approved by the 117th Congress to continue assistance due to the continuation of the pandemic, totaling $1.9 trillion.

California

The State of California faces its own uncertainty with variants to the virus circulating, a pending recall election for the Governor, a looming drought, wildfire risk, and the spring holiday season causing another spike in COVID-19 cases, leaving many counties in the red tier, preventing the continued gradual reopening of businesses to the public. Currently, if trends continue, Governor Gavin Newsom plans to fully reopen the California economy on June 15, 2021, removing all color-coded tiers and restrictions for Californians. It is likely masks will continue to be required.

Federal relief bills totaled $298 billion in revenue to the State in FY2020/21, of which $13 billion went to local governments. The Governor's FY2021/22 proposed January budget includes one-time COVID-19 related expenditures and increases to spending. This includes $86 billion for schools, $1.75 billion for one-time homelessness programs, $1 billion to support forest health and fire prevention, $1 billion in COVID-19 related emergency response, and $3 billion for child transition support services. The Budget reflects $34 billion in reserves and discretionary surpluses, including $15.6 billion in "Rainy Day" funds and a $15 billion surplus. Federal earmarks may also allow for larger infrastructure projects to receive priority funding this year. The Legislative Analyst's

Office predicts a sizable state budget surplus, independent of federal funds. The State will also have greater than usual flexibility on how and when to spend revenues allocated in response to the pandemic.

Two things of note for 2021 in California: the population decreased slightly, by approximately 0.5% due primarily to COVID-19 deaths and residents moving out of state; and housing remains costly in California, and employment due to remote work has allowed the workforce to increasingly live out-of-state. For the first time, California lost a congressional seat due to this population decline which could have implications in the future for federal funding based on population. The BLS reports the San Francisco Area Consumer Price Index as of February 2021 indicates an annual increase of 1.6%, with food prices rising 5%. The Employment Development Department reported the unemployment rate totaled 8.2% for April 2021.

Staff will be monitoring closely the State and federal economic developments and the budget decisions that this ongoing emergency requires and will return to the Board as necessary.

FY2021/22 GENERAL FUND RECOMMENDED BUDGET

The County's FY2021/22 Recommended Budget for the General Fund of $325.6 million is balanced anticipating revenues of $278.1 million, drawdowns from committed Fund Balances of $10 million for Capital Renewal Reserve, $1.5 million for Accrued Leave Payoff and use of Fund Balance ($36 million).

The Recommended Budget for General Fund reflects revenues of $278.1 million, an increase of $13.3 million excluding reserves when compared to the FY2020/21 Adopted Budget of $264.8 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 $17.5 million primarily due to improved property values and increases in ABX1 26 Residual Taxes and pass-through payments due to the recent final court decision in the City of Chula Vista vs San Diego Auditor-Controller that resulted in a methodology change on passthrough caps and residual taxes. The cap was removed, and the County benefited due to our favorable passthrough agreements. As the County continues to recover from the economic decline due to the COVID-19 pandemic, other revenues derived from taxes are anticipated to increase, including: Current Unsecured, Penalties, and Sales and Use Tax revenue. Also anticipated is an increase in Interest Income of $0.5 million as the economy recovers. These increases are partially offset by reductions in Intergovernmental Revenues driven by one-time federal CARES Act funding received in FY2020/21.

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 FY2020/21 Midyear projections prepared in February 2021 and are provided for comparison only, using the FY2021/22 Recommended Budget as the starting point for the upcoming year. The table reflects projected revenues and expenditures through FY2023/24. 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 FY2021/22 Recommended Budget and the projections are subject to change pending revenue and expenditure impacts due to external factors resulting from the COVID-19 pandemic. 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 FY2021/22 Adopted Budget.

Solano County

General Fund - Fiscal Projection

FY2021/22 Recommended Budget

(in million of dollars)

		Midyear Projection For 6/30/21	Recommended Budget FY2021/22	Projected Budget FY2022/23	Projected Budget FY2023/24
a	**General Fund, Beginning Balance**	$ 36.36	$ 36.04	$ 14.00	$ 2.31
	TO Reserves:				
	General Reserves				
	Unfunded Employee Leave Payoff				
	Capital Renewal Reserve				
	Employer CalPERS Rate Increases	3.923	0.595		
	PARS 115 Trust				
b	Subtotal - TO Reserves	3.923	0.595	0.000	0.000
	FROM Reserves:				
	General Reserves				
	Unfunded Employee Leave Payoff		1.500	1.500	1.500
	Capital Renewal Reserve	0.471	10.000	4.000	4.000
	Employer CalPERS Rate Increases			4.000	4.000
	Encumbrances	0.924			
c	Subtotal - FROM Reserves	1.395	11.500	9.500	9.500
d	**Net Increase (Decrease) in Funding Sources: (b+c)**	(2.528)	10.905	9.500	9.500
e	**TOTAL AVAILABLE FINANCING (a+d)**	33.832	46.945	23.496	11.810
f	Operating Expenditures (excluding Contingencies/transfers to Reserves)	284.621	311.016	307.939	316.277
g	Contingencies	0.000	14.000	12.000	12.000
h	**Total Operating Expenditures**	284.621	325.016	319.939	328.277
i	Operating Revenues (excluding transfers from Reserves)	284.829	278.067	286.753	297.084
j	Operating Expenditures (excluding Contingencies/transfers to Reserves)	284.621	311.016	307.939	316.277
k	**Net operating Revenues over (under) Expenditures [known as Operational Deficit] (i-j)**	$ 0.208	$ (32.949)	$ (21.186)	$ (19.193)

***** General Fund, Beginning Balance in FY2021/22 includes estimated additional savings from County departments as projected at Midyear, however COVID-19 financial impacts may reduce the beginning fund balance for FY2021/22. FY2022/23 and FY2023/24 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 FY2022/23 and beyond.

* Operating Expenditures in FY2021/22 include an $18.5 million General Fund contribution to Accumulated Capital Outlay for capital projects as outlined in the ACO BU1700 Departmental Budget. FY2022/23 and FY2023/24 are projected based on a $4 million contribution for capital project funding per year, resulting in a decrease in projected Operated Expenditures when compared to FY2021/22.

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 FY2021/22 Recommended Budget includes the use of General Fund – Committed Fund Balances of $10 million from Capital Renewal, and $1.5 million from Unfunded Employee Leave Payoff.

The significant Revenue Assumptions from the General Revenues budget include:

- An estimated 2% increase in assessed values compared to the FY2020/21 corrected assessment roll, resulting in projected increases of $2.3 million in Current Secured Property Taxes and $2.2 million in Taxes in Lieu revenues. Projections in FY2022/23 and FY2024/25 reflected herein were based on assessed values changes prior to COVID-19 and include 3% increases. Based on the corrected assessment roll for FY2020/21 8,507 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.
- ABX1 26 Taxes are projected to increase by $5.5 million in ABX1 26 passthrough, and to increase $6.5 million in ABX1 26 Residual Tax Revenue, resulting from the recent final court decision in the City of Chula Vista vs San Diego Auditor-Controller that resulted in a methodology change on passthrough caps and residual taxes.
- Current Unsecured Property Taxes are projected to increase by $0.1 million in FY2021/22 when compared to the FY2020/21 Adopted Budget. While the revenues have remained relatively stable, there is a potential for business inventory and valuation changes due to the COVID-19 pandemic resulting in closures which may negatively impact Unsecured Tax revenue. In the subsequent years, Unsecured Tax is anticipated to increase by only 1% per year in FY2022/23 and FY2023/24 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 Recommended Budget for FY2021/22 reflects $43.9 million in Proposition 172 funding, an increase of $5.1 million when compared to FY2020/21 Midyear projection. As Proposition 172 funds increase for the County, the Public Safety Fund Departments may require a decrease in County revenue support in the delivery of mandatory services. It is anticipated there will be an increase in the statewide projected sales tax revenue as the California economy recovers from the COVID-19 pandemic. County staff are monitoring the sales tax projections for Proposition 172 revenues and may provide update projections prior to final approval of the FY2021/22 Adopted Budget.
- The Recommended Budget for FY2021/22 reflects $72 million drawdown in 1991 State – Local Realignment revenues, an increase of $15.7 million; and $64.5 million in 2011 Realignment funds, an increase of $7.5 million. The increases reflect the increase need to draw Realignment funds to maintain programs and the recovery of state realignment funding resulting from the economic impacts of COVID-19 and the prior year's stay-at-home orders. If federal and State revenues come in higher than anticipated, then General Fund Contributions 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 28.96% for Miscellaneous and 38.39% for Safety in FY2021/22.
- Health insurance costs are projected to increase 5% per year based on past rate history for FY2021/22, with 5%-7% annual increases likely in future years.
- The County General Fund Contributions through FY2021/22 are listed below:
    - General Fund support for Public Safety is projected to increase from $132.1 million to $144.2 million; a $12.1 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 increase from $28.2 million to $32.1 million; a $4 million increase. The increase is primarily due to changes in the General Fund costs for IHSS resulting from the modifications to the IHSS Maintenance of Effort (MOE), increases in assistance costs primarily due to Adoption Assistance and Foster Care Assistance program costs, and increases in the annual participation fee for the County Medical Services Program (CMSP) which were waived in the prior year.

- The FY2021/22 Recommended Budget includes a Contingency appropriation of $14 million.

General Fund Deficit Reduction Strategies for FY2021/22 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 and 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 Recommended Budget document was prepared early in the March/April timeframe to facilitate the mandated public release of the budget in May 2021. To accommodate the release, the departmental budgets reflect only the known and approved State and federal programs changes as of April 2021, which will take effect July 1, 2021.

COVID-19 Pandemic: The County continues to face challenges in responding to and recovering from the COVID-19 pandemic. In FY2021/22 the County will continue to expand the efforts to vaccinate our residents, shifting focus on vaccinations at pop-up sites and in our schools. To date the County has provided 307,400 vaccine doses to 170,100 individuals, with approximately 137,300 individuals receiving a full course of vaccine. As of the printing of this document Solano County is in the red tier of California's Blueprint for a Safer Economy. Funding for COVID-19 response and the impact on our local economy and the County Budget remain a focus. In an effort to recover costs related to COVID-19, County staff endeavor to maximize available funding from the State and federal government. Additionally, the County is pursuing claims with the Federal Emergency Management Agency (FEMA) as part of its COVID-19 cost recovery strategy. The Recommended Budget was prepared during the continued response to the COVID-19 pandemic emergency. At this time, it is unclear if the FY2021/22 Budget will be additionally impacted by COVID-19. Department staff will continue to monitor and evaluate COVID-19 impacts and will provide necessary revisions when verified.

Public Health - The Recommended Budget for Public Health reflects limited anticipated impacts of COVID-19 and will require adjustments to meet these challenges as funding and the impacts of the pandemic are identified. The Department's Supplemental Budget will address necessary budgetary adjustments, including anticipated additional funding for critical programs to combat the pandemic, specifically the ELC Enhancing Detection Expansion funds in the amount of $16,415,577 covering the period of January 15, 2021 through July 31, 2023. This allocation is to augment the funding received in FY2020/21 in the amount of $4,893,927. Public Health also received a notice from the California Department of Public Health (CDPH) Immunization Branch that Solano County will be allocated COVID-19 supplemental funding of $2,045,440 through June 30, 2022. The increase in relief funds may impact normal program invoicing due to the redirection of County workforce to combat the effects of the pandemic resulting in a decrease in the use or draw of State and federal allocations and realignment funds.

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. 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.

In-Home Supportive Services: IHSS PA and SEIU 2015 labor contract expired on June 30, 2020. Formal negotiations with SEIU 2015 began in February 2021. Negotiations continue at the time of this Budget document preparation. When the successor contract is completed it is anticipated that there will be changes in wages or benefits resulting in increased costs and adjustments.

The federal share of IHSS costs historically ranges between 50%-56%, the remainder is referred to as the non-federal share of cost for negotiated wage and benefit increases in the IHSS. The State legislation and Maintenance of Effort County Contribution is split 65% State and 35% County. In the FY2019/20 State budget, the State revised this formula to flip in 2022 to 65% County and 35% State for negotiated provider increases once minimum wage equals $15/hour with State adoption currently scheduled for January 1, 2022. The change in sharing ratios will have an impact on the Department's FY2021/22 and future budgets. CSAC is in discussions with the State on this exposure to all counties at this time.

California Advancing and Innovating in Medi-Cal (CalAIM): DHCS plans to implement California Advancing and Innovating in Medi-Cal (CalAIM) as part of the State's renewed federal waiver in January 2022. The CalAIM initiative seeks to improve quality of life and health outcomes by implementing a statewide person-centered approach to providing services and payment reform for the Medi-Cal program. Part of the initiative is to create consistency by transitioning Kaiser Medi-Cal enrollees to Solano County for the provision of managed care specialty mental health services. The County will be fiscally and programmatically responsible for providing these services to Kaiser Medi-Cal enrollees as is already the case in all other counties except Solano and Sacramento.

Prior to 2011 Realignment, specialty mental health services provided to Medi-Cal Managed Care enrollees in Solano County were considered carved-in services under the managed care plan agreement between the State and Partnership HealthPlan of California (PHC). PHC in turn subcontracted these services to Solano County and Kaiser. The subcontract with Kaiser was for Kaiser Medi-Cal enrollees only. When the State realigned managed care mental health services under the 2011 Realignment Act, the subcontract between PHC and the County was terminated. The State allowed PHC to continue the existing arrangement with Kaiser as Kaiser did not have a system in place to bill under the Short Doyle Medi-Cal system and did not meet other program and data reporting requirements.

The 2011 Realignment baseline amount for Solano County for the realigned managed care mental health services was estimated by the State based on PHC's costs in annual capitation payments made to both Solano and Kaiser. Under the Realignment model, after baseline amounts are established, fluctuations in realignment receipts, generally driven by sales tax do not reflect fluctuations in the actual cost of providing realigned services. Although 2011 Realignment Behavioral Health growth distributions or allocations are partially based on a methodology using number of Medi-Cal enrollees, including Kaiser beneficiaries, each county's allocated share of the growth does not necessarily relate to increases in costs of providing services and caseload growth.

The 2011 Realignment baseline amounts were pre-Affordable Care Act (ACA). With the dramatic increase in the number of enrolled Medi-Cal individuals due to ACA, the steady increase in the cost of providing specialty mental health services, and the scarcity of mental health resources in terms of staffing and contracted services, H&SS anticipates that this transition will have very significant fiscal and programmatic impacts. It is still uncertain how significant these new costs will be to the County in both Realignment and General Fund dollars and how the County will serve this new client base with its current clinics. More information will be provided to the Board as the State continues to negotiate the new Medi-Cal (CalAIM) program with the federal government with a transition expected to happen by January 2022. At this time, it is not known what the January 2022 deadline entails but H&SS has started conversations with Kaiser, PHC and the State and is gathering data to help analyze and quantify the impacts.

One of the goals of CalAIM is that service providers will be able to spend more time providing direct services and less time working on burdensome documentation. The major advantage would be the elimination of service by service "disallowances" due to inadequate documentation under the current rules, which were mostly the cause of the large payback the State and counties incurred following the Office of the Inspector General's audit findings reported in 2018.

Payment reform will significantly impact Medi-Cal reimbursement. The current proposal changes reimbursement from a minute-based cost per unit to a fee for service based on Healthcare Common Procedure Coding System (HCPCS) codes. Reimbursement to counties will also be through an Intergovernmental Transfer (IGT) process. This change will require counties to pay the nonfederal share to DHCS where the current system does not. The current system requires counties to pay for expenditure prior to claiming the federal share. Matching revenues remain at the County. The proposed system would require counties to pay for expenditures, but also require the county to send payments to DHCS for the nonfederal share so the funds can be used for the IGT. Once DHCS is reimbursed the federal share, it will pay the County both the nonfederal and federal reimbursement. This change will impact cash flow for Behavioral Health.

<u>2011 Public Safety Realignment/AB 109 Funding</u>: The 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 FY2021/22, 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 FY2021/22 based on actual FY2020/21 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 FY2021/22 Adopted Budget.

<u>Proposition 172 Public Safety Funding</u>: 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 $43.9 million in the Budget recommendations. The budgeted Prop 172 funding represents the continued recovery of revenues following the swift reaction by consumers and businesses to the outbreak of COVID-19 in the U.S. which 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 will update the Board as necessary during the year. Additionally, SB792 (Glazer) introduced in February 2021, proposes to modify the methodology of online sales tax allocation, which may significantly impact the County's Prop 172 allocation. This bill remains in appropriations committee on the suspense file, County staff will monitor the Bill's progress and the impact.

<u>Juvenile Justice SB823</u> - Senate Bill 823 outlines the process for the closure of the Division of Juvenile Justice (DJJ), effective July 1, 2021. Counties will be expected to serve these youths locally. The legislation also includes the development of a County Plan, which describes the programs, services, and interventions provided to youths as well as facility and operational changes that will take place at the local juvenile detention facility. The Department will continue to work with the Juvenile Justice Coordinating Council, treatment providers, and other stakeholders to meet the needs of this population in detention and in the community.

<u>Bail Reform</u> - Senate Bill 10, the California Money Bail Reform Act of 2017, failed in the 2020 election and to date, no other bail reform legislation has been brought forward. However, in March 2021, the California Supreme Court ruled on the Humphries case, and as a result, courts must now consider an arrestee's ability to pay alongside the efficacy of less restrictive alternatives when setting bail. As a large number of those typically detained in the County's jails are awaiting trial, the Supreme Court's ruling to uphold the Humphries decision could impact jail populations as well as Probation's Pretrial Program. Staff continues to monitor the results of the ruling and will adjust services as needed.

Property Tax Appeals/Prop 8 Values: As of May 12, 2021, there are 364 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 $5.6 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, 2020, 8,507 of the County's 149,588 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.

Redistricting: Every ten years the U.S. Census Bureau releases population data that is used to determine if federal, state, local and special districts need to adjust their boundary lines to ensure equal representation by each elected official in each agency. Solano County must evaluate the population data for the County Supervisorial Districts so that they have substantially equal populations and that they comply with the federal Voting Rights Act of 1965 and California State Laws, including the recently chaptered Fair and Inclusive Redistricting for Municipalities and Political Subdivisions (FAIR MAPS) Act. Normally the process would start in April when the U.S. Census Bureau releases the population data however, this year the data is not expected to be available until September. In accordance with the Fair Maps Act requirements, the County Board of Supervisors selected to appoint a 15-member Redistricting Advisory Committee (RAC21) to assist in conducting community outreach to identify the communities of interest countywide and within their respective districts. The RAC21 will begin their outreach efforts between now and when the 2020 Census data is released in the Fall to allow the Board sufficient opportunity to conduct public hearings to consider potential district map options before the December 15, 2021 deadline to approve final maps.

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. With the final component of SB 1 beginning July 1, 2020, Highway Users Tax Account (HUTA) and Road Maintenance and Rehabilitation Account (RMRA) revenue projections include full implementation of SB 1 for the fiscal year in FY2021/22. While the County has experienced significant increases in revenue since the law went into effect in November 2017, now that each component of SB 1 has been fully implemented, revenue increases will occur at a much slower rate. While fluctuations in fuel consumption, inflation, and vehicle registrations affect SB 1 revenue, gasoline prices no longer directly tie to fuel tax rates, providing more revenue stability. Since 70% of SB 1 revenue remains tied to fuel consumption, should there be a significant decline then revenue would be adversely impacted. Although fuel consumption has been declining in recent years, the rate of inflation has outpaced that decline, resulting in increased gas tax revenues. While the impact of COVID-19 resulted in a 7% decrease in FY2020/21 gas tax revenue, FY2021/22 is projected to see a 10% increase over FY2020/21.

Recall Election - The FY2021/22 Recommended Budget was prepared prior to the final notification regarding the effort to recall the California Governor. The Recommended Budget does not reflect the costs for a potential California Gubernatorial Recall Election. The ROV will return to the Board as necessary to adjust the Budget and address the cost for the Recall Election.

Energy Efficiency and Resiliency Project – On April 27, 2021 the Board authorized staff to move forward with the proposed energy and efficiency and resiliency project and related project financing. The project includes the installation of photovoltaic (solar) energy systems and other energy saving initiatives at County facilities. These initiatives are aimed in part at improving the energy resilience of the County's facility sites in preparation for Public Safety Power Shutoff (PSPS) events and other catastrophic outages to ensure continuity of County services, as well as identifying potential technologies to reduce reliance on fossil fuel, address greenhouse gas and reduce utility costs with the intention that the costs associated with these projects will be covered largely by the projected savings generated by the improvements. Staff will return to the Board as necessary to adjust the Budget and take other action regarding project financing in the coming months.

LNU Lightning Complex Fire Recovery – The County continues recovery efforts in the wake of one of the largest wildfires in California history. Staff in coordination with the Board of Supervisors are working with residents impacted by the fire to safely rebuild. In addition, the fire damaged several County facilities, which staff are also working to address. As the County works through the recovery process, staff primarily in the Resource Management Department in coordination with the Auditor-Controller, Sheriff Office of Emergency Services (OES) and the County Administrator's Office will continue to monitor and recover all eligible expenditures through the FEMA disaster declaration claim process.

With the National Oceanic and Atmospheric Agency rating Solano County as experiencing an extreme drought, defined as fire season lasting year-round, fires occurring in typically wet parts of the State, and burn bans being implemented, the risk of additional fire-related emergencies in Solano County remains high. Due to the likelihood of fire danger, it is expected that there will be Public Safety Power Shutoffs (PSPS) events in FY2021/22 despite PG&E's efforts to refine PSPS boundaries and minimize the impacts on its customers. The County continues to focus on resiliency and prepare for fire-related emergencies. County staff remain ready to respond through the Emergency Operations Center (EOC) should an emergency occur.

American Rescue Plan Act (ARPA) – On March 11, 2021 the President signed the American Rescue Plan Act of 2021 into law. The $1.9 trillion package is intended to combat the COVID-19 pandemic, including the public health and economic impacts. The ARPA allocates funding for public health and vaccines, assistance for vulnerable populations, educational and housing stabilization, economic recovery assistance, and direct assistance for families and individuals. Funding is outlined to be distributed through various state and federal agencies with potential for the County to receive ARPA funding through specific program allocations or grant opportunities. The funding allocation and the detailed guidelines for spending, remain in development. As funding opportunities are identified staff will return the Board. In addition to the State and federal agency funding opportunities, the County is anticipated to receive a direct funding allocation in the ARPA of approximately $86.9 million. As detailed guidelines become available on the direct funding allocation to the County, staff will return to the Board to address the process for allocating and appropriating ARPA funding.

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 $36 million as reflected in the FY2020/21 Midyear projection. This fund balance projection may be impacted by COVID-19 pandemic response expenditures and revenues through June 30, 2021. If the FY2020/21 Midyear projection for Fund Balance is not met, or there is an unanticipated shortfall in the FY2021/22 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, 2021 exceeds the Midyear projections for FY2020/21, 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 FY2021/22 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.

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