## COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: May 23, 2025

TO: Board of Supervisors

FROM: Bill Emlen, County Administrator

SUBJECT: FY2025/26 Recommended Budget

Staff recommends that the Board of Supervisors conduct Budget Hearings beginning at 9:00 a.m. on June 23, 2025 and take action to adopt the Budget at the conclusion of the hearings. Necessary actions initiate approval of the FY2025/26 Budget, which includes considering the number and classification of positions needed to fulfill County obligations and services, investments in technology and County facilities for both required maintenance and expansion, and how to ensure we are meeting current responsibilities while also planning for future opportunities and economic uncertainty.

In preparing the Recommended Budget, it was necessary to balance rising operational costs and evolving service demands with unstable market conditions and heightened concern over the future of federal funding streams. In addition, one-time funds associated with COVID-19 recovery, such as American Rescue Plan Act (ARPA) are no longer available to close any budget shortfalls.

Departments were asked to consider their requirements to provide services to the community and to factor in the ability to address increased operating needs and labor costs, all while managing the challenges presented by an uncertain economic environment. Therefore, the resulting FY2025/26 Recommended Budget represents a decrease of 0.4% over the FY2024/25 Adopted Budget, underscoring our prudent financial approach in unpredictable times.

The FY2025/26 Recommended Budget continues to address Board adopted Budget Strategies, Board Priorities, and sound financial practices and is balanced, although not structurally, and relies on federal, State, and local revenues, the use of fund balances, draws from reserves, and some one-time funding.

The FY2025/26 Recommended Budget includes a section dedicated to the County Statistical Profile. This section provides information on Solano County's current economic outlook and highlights indicators. This information includes population growth, unemployment, graduation rates, agricultural values, changes in personal income, commuter trends, housing market statistics and housing and rental affordability, building trends, and more. (*See County Statistical Profile Section*). Included in this budget summary are the following budget-related sections: 1) Budget Overview; 2) Financial Summary; 3) General Fund Reserves, Designations & Commitments, and Fund Balance; 4) Overview of the Federal and State Budgets; 5) Economic Risks; 6) FY2025/26 General Fund Recommended Budget; 7) General Fund Fiscal Projections; 8) Pending Issues; and 9) Summary of Recommendations.

## BUDGET OVERVIEW

| TOTAL FINANCING REQUIREMENTS - ALL GOVERNMENTAL FUNDS<br>FY2025/26 | | | | |
|---|---|---|---|---|
| FUND NAME | FY2024/25 ADOPTED BUDGET | FY2025/26 RECOMMENDED | CHANGE | % CHANGE |
| GENERAL FUND | $ 414,400,229 | $ 416,004,779 | $ 1,604,550 | 0.4% |
| SPECIAL REVENUE FUNDS | $ 1,161,783,051 | $ 1,169,585,130 | $ 7,802,079 | 0.7% |
| CAPITAL PROJECT FUNDS | $ 43,765,127 | $ 40,977,903 | $ (2,787,224) | (6.4%) |
| DEBT SERVICE FUNDS | $ 31,991,520 | $ 18,520,662 | $ (13,470,858) | (42.1%) |
| **TOTAL GOVERNMENTAL FUNDS** | **$ 1,651,939,927** | **$ 1,645,088,474** | **$ (6,851,453)** | **(0.4%)** |
| **BUDGETED POSITIONS** | 3,276.70 | 3,284.90 | 8.20 | 0.3% |

The FY2025/26 Recommended Budget for all Governmental Funds is balanced and totals $1,645,088,474 (*Schedules 1 and 2*). The Recommended Budget represents a decrease of $6.85 million or 0.4% when compared to the FY2024/25 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 $7.8 million in the Special Revenue Funds, primarily due to increases in Public Safety, Health and Social Services, Road, Public Facilities Fees and other funds. The Capital Project Funds decreased by $2.8 million primarily due to the timing of capital projects funded as part of the County's Capital Project Plan. The increase in the General Fund of $1.6 million is primarily due to increases in property tax revenues, offset by increases in appropriations in General Fund departments, reflecting increased labor costs due to wage, retirement, and health benefit increases totaling $4.0 million and increased General Fund contributions to Public Safety and debt service when compared to the FY2024/25 Adopted Budget. It should be noted that the change in General Fund for FY2025/26 reflects an increase of only 0.4% when compared to the FY2024/25 Adopted Budget primarily due to a decrease in use of General Fund – Capital Renewal Reserve of $3.0 million to fund capital projects and deferred maintenance for various projects. Funded projects represent available resources to initiate new projects and support previously authorized projects under the County's Capital Improvement Plan (CIP). The Debt Service Funds reflect a decrease of $13.5 million when compared to the FY2024/25 Adopted Budget primarily due to the full redemption of Pension Obligation Bonds (POBs) and the closing-out of the Pension Debt Service Fund. Overall, the FY2025/26 Recommended Budget for All Governmental Funds decreased by 0.4% when compared to the FY2024/25 Adopted Budget.

The FY2025/26 Recommended Budget uses the March 2025 Midyear Financial Report projected Fund Balances for 6/30/2025 and draws down $9.8 million from various Committed Fund Balances to meet planned County obligations. Consistent with sound financial practices, one-time General Fund revenues are recommended to be used to offset one-time costs wherever feasible. FY2025/26 uses some draws from designated reserves for accrued leave and capital renewal to fund one-time costs and liabilities for employee accrued leave payoff, and costs for the major maintenance and capital improvements of County facilities.

The Recommended Budget reflects a workforce of 3,284.90 FTE positions, excluding extra-help positions, and makes assumptions about timing for filling existing vacancies. Budgeted positions reflect a net increase of 8.20 FTE compared to the FY2024/25 Adopted Budget. This increase is the result of a net 7.50 FTE increase in positions approved by the Board during the fiscal year, and a net 0.70 FTE increase (including expiring Limited-Term positions) included in the FY2025/26 Recommended Budget for the Board's consideration. The year-to-date position changes and those in this budget reflect 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 FY2025/26 Recommended Budget.

## FINANCIAL SUMMARY

The Governmental Funds Spending Plan by Function graph portrays a total of $1.645 billion. The graph indicates the percent of the total for each functional area required within the Governmental Funds.

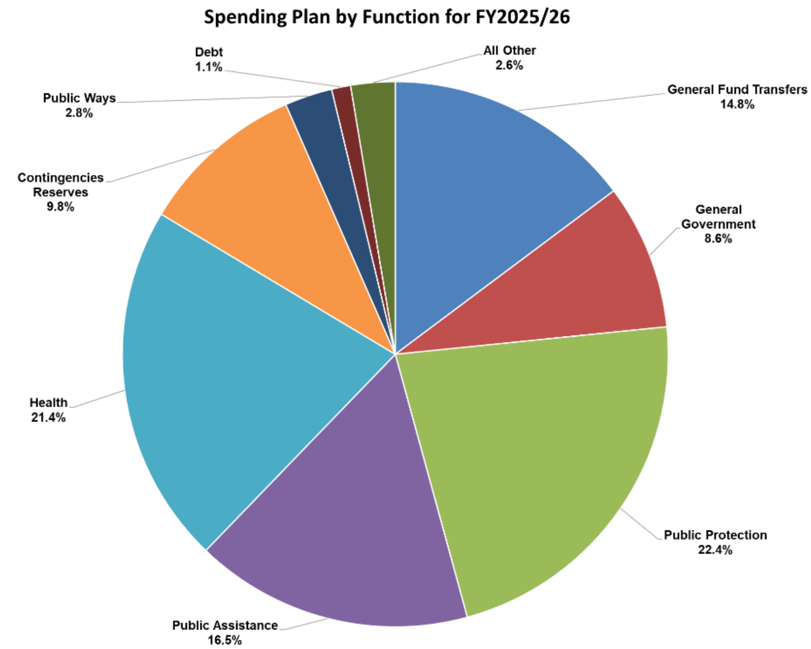
Public Protection represents the single largest category of County appropriations at 22.4% in the FY2025/26 Budget, which is an increase from 22.0% in the FY2024/25 Adopted Budget. Public Protection spending is projected to increase $4.2 million in FY2025/26 with the largest increases being in wages, retirement, health benefits, insurance, Countywide Administrative Overhead, and inmate costs.

Public Assistance, at 16.5%, and Health, at 21.4%, represent the social safety net function of County government, which together represent a decrease from FY2025/26. Public Assistance spending is projected to decrease by $9.4 million in FY2025/26, primarily due to the full allocation of one-time ARPA-SLFRF funds in FY2024/25. Health spending is projected to decrease $0.8 million in FY2025/26, primarily due to decreases in revenues, the ending of one-time COVID-19 funding, and a reduction in Public Health-Intergovernmental Transfer (IGT) restricted funds in Health Services.

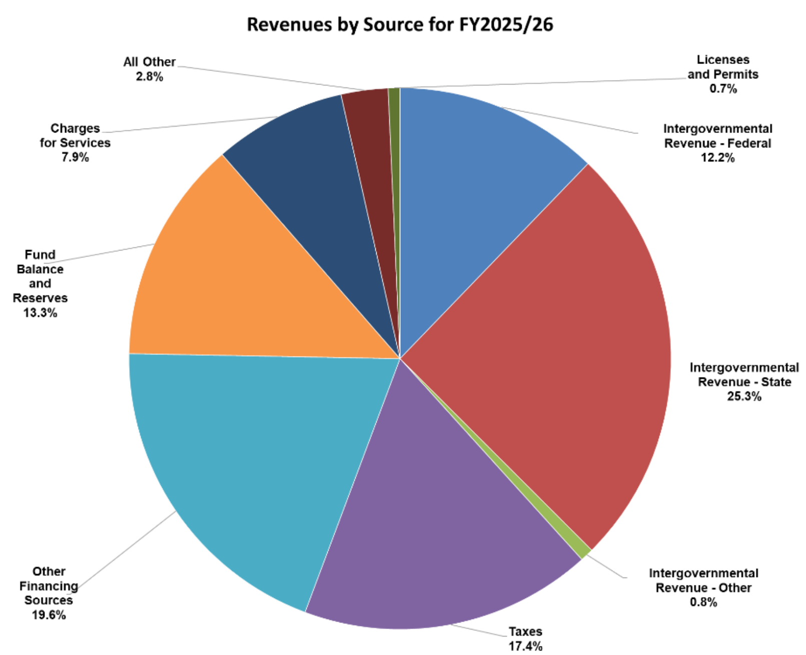
General Fund Transfers represent a 14.8% share of the FY2025/26 Recommended Budget, reflecting increases in Public Safety costs, social services programs, and costs for capital improvements.

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 38.3% of the Recommended Budget and generally have specific requirements on how funding can be used. Intergovernmental Revenue from State and federal agencies reflect a net decrease of $25.6 million primarily due to the full allocation of one-time ARPA-SLFRF funds in FY2024/25. Taxes represent 17.4% of the FY2025/26 revenue projections, an increase from 16.4% from FY2024/25.

Other Financing Sources, which includes the transfer of funding between government budgets, represents 19.6% share of the FY2025/26 projected revenues, which is down from 19.9% share in FY2024/25. Fund balance and reserves represents an 13.3% share of the FY2025/26 revenues, an increase from FY2024/25.




**GOVERNMENTAL FUNDS**
**Total: $1,645,088,474**



The General Fund Spending Plan (*Fund 001*) graph portrays a total of $416 million. The Public Safety category represents the single largest category of expenditures at 44.4% of the FY2025/26 Spending Plan, which is an increase from a 42.1% proportional share in FY2024/25. This category includes the Sheriff, District Attorney, Public Defender, Alternate Public Defender, Probation, and Other Public Defense.

The General Government/All Other category represents a 31.5% share in FY2025/26, which is a decrease from a 31.8% proportional share in FY2024/25. Functions listed under this category include Agricultural Commissioner, Resource Management, Registrar of Voters (ROV), General Government, courts Maintenance of Effort (MOE), and other MOEs.

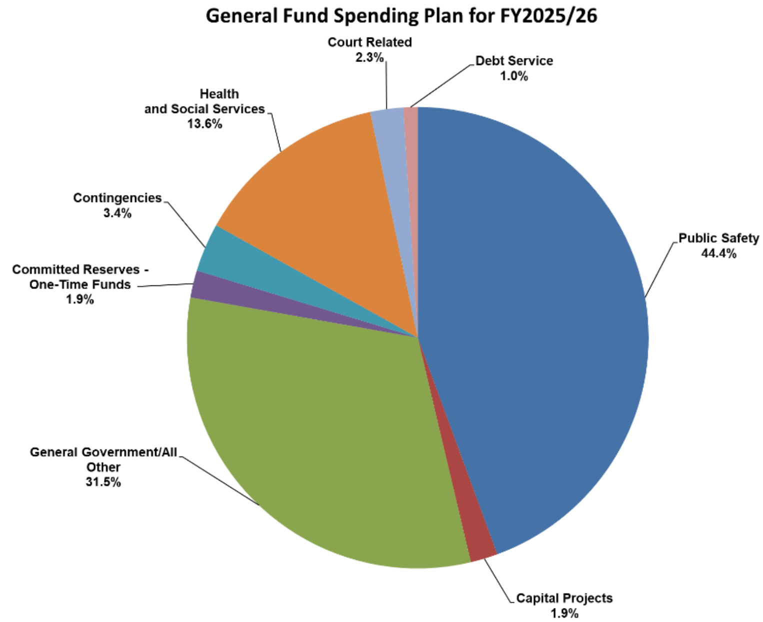
Health & Social Services (H&SS) is the third largest category of General Fund use at 13.6% of the total, which is in-line with the share in FY2024/25. The General Fund contribution to H&SS and IHSS is projected to decrease by $0.8 million in FY2025/26.

The FY2025/26 Recommended Budget includes the allocation of $7.9 million in one-time funds to Committed Fund Balances which primarily reflects the transfer of anticipated year-end fund balance in the Pension Obligation Bond to the Reserve for Employer PERS Rate Increase.

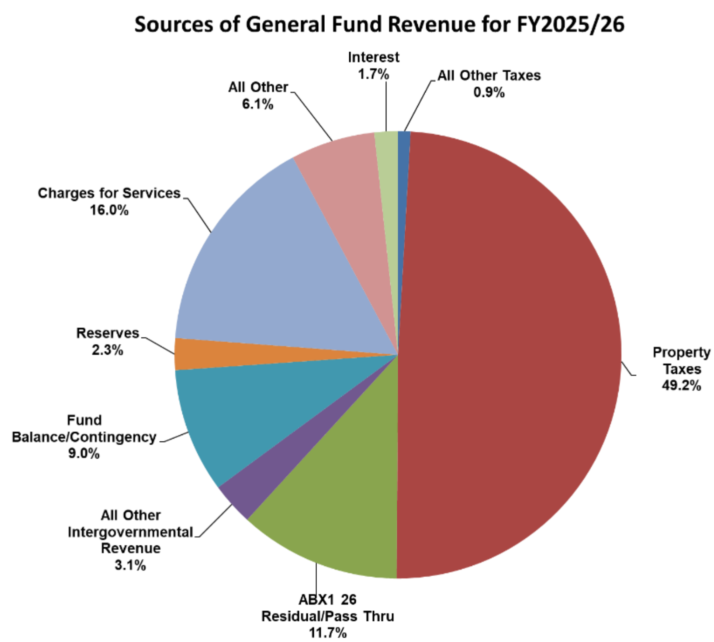
The Sources of General Fund Revenue graph provides information concerning General Fund financing for County operations. General Fund revenue is projected to increase by $18.7 million from the FY2024/25 Adopted Budget, primarily due to increases in property taxes and ABX1 26 taxes.

Revenues derived from property values account for over half of General Fund revenues, with Property Taxes at 49.2% and ABX1 26 residual taxes and pass-through at 11.7%. Property taxes include secured, unsecured, supplemental, unitary, property tax in-lieu of Vehicle License Fee (VLF), and property transfer tax. The Recommended Budget projects a net increase of $14.0 million in these property related revenues when compared to the FY2024/25 Adopted Budget.

The second largest source of revenue is Charges for Services at 16.0%, which includes fees, permits, licenses, property tax administration fees, and reimbursements for County costs of service. The third largest category is Fund Balance/contingency at 9.0%. The General Fund projected Fund Balance at the end of FY2024/25 becomes a means of financing for the FY2025/26 Recommended Budget.



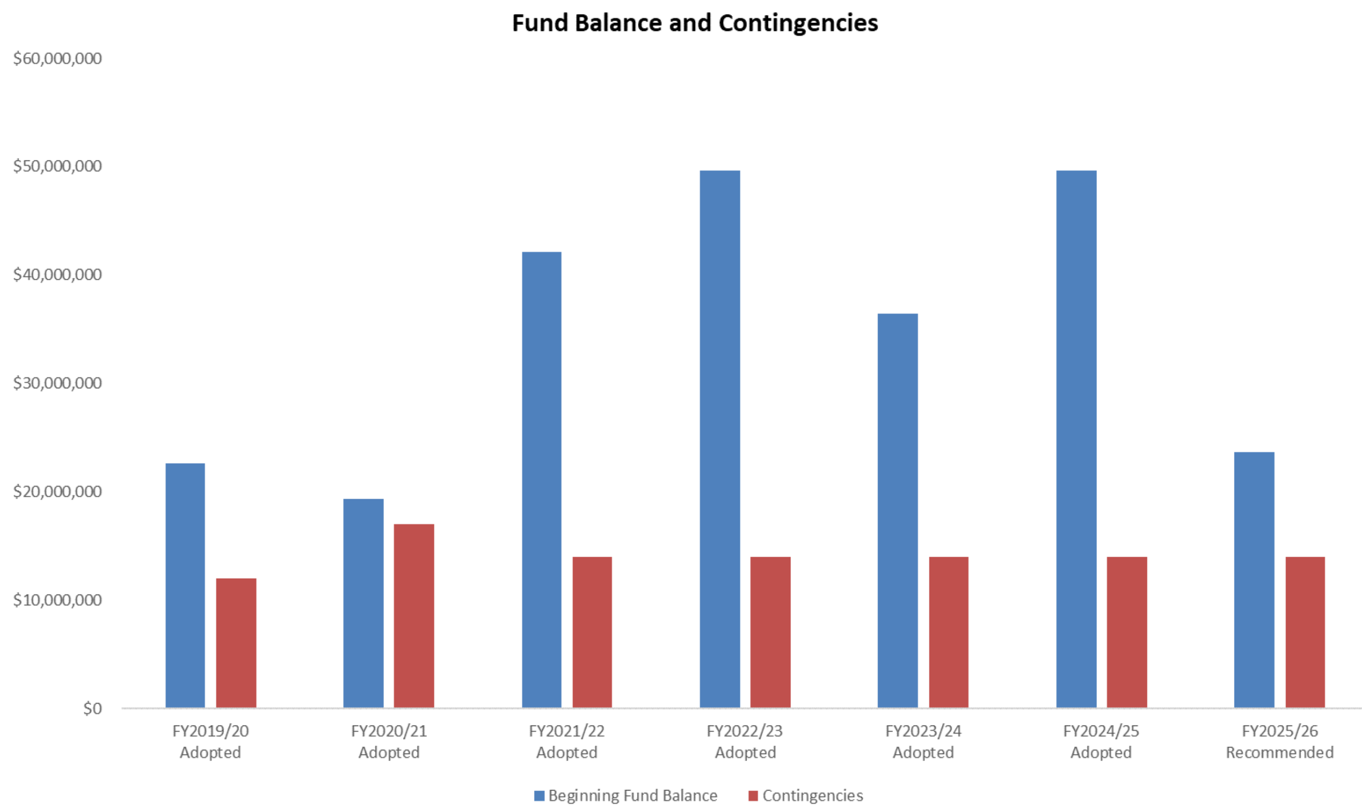

**GENERAL FUND**
**Total: $416,004,779**



## 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; and strategically step-down programs to align ongoing expenditures with ongoing revenues.

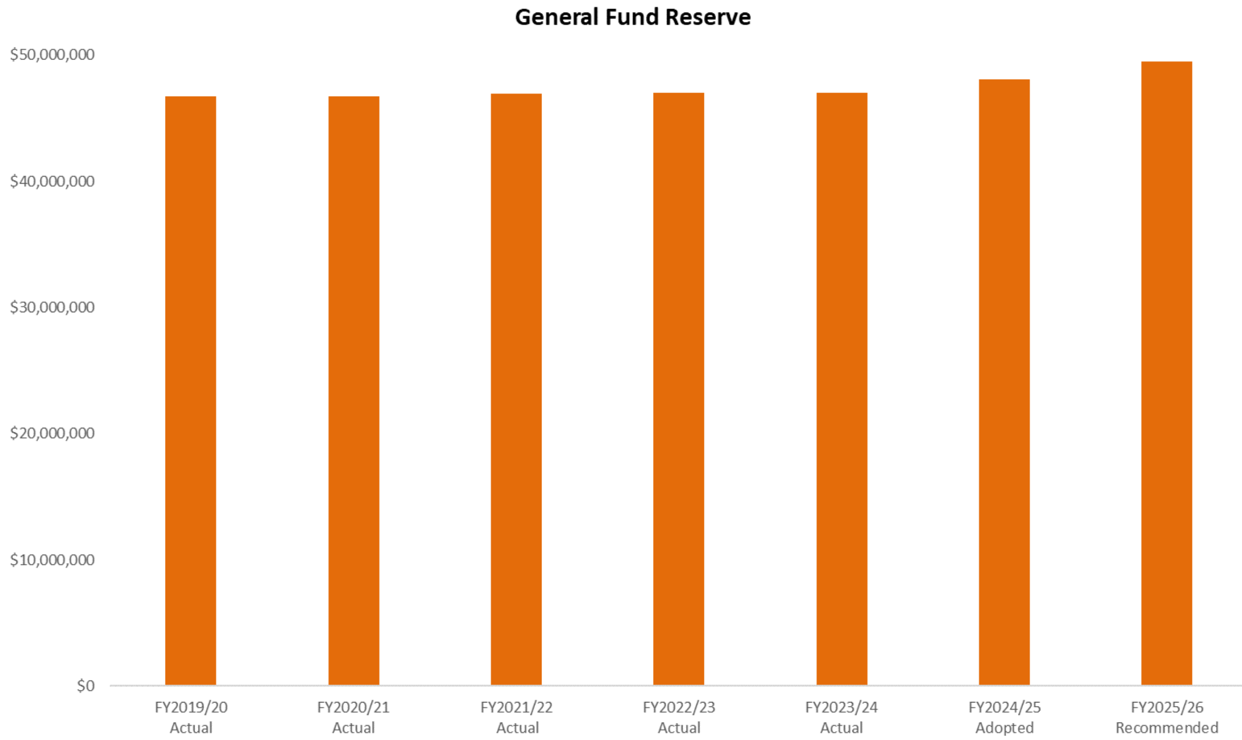
In good economic times the Board has consciously set monies aside to fund and finance some of the General Fund obligations, liabilities, and responsibilities. The strong fiscal policies established in the 1990's and maintained by the Board and the execution of those policies by the County departments continues to strengthen the County's financial position. This has enabled the County to manage through the Great Recession, other economic downturns, the COVID-19 pandemic and LNU Fire. The establishment of the General Reserve and the funding of the various General Fund designated Reserves are examples of prudent fiscal management by the County. As we look to the future, the Board policies, 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 on June 30, 2025 is projected at $37.7 million and is based on the FY2024/25 Midyear projection. Estimated Fund Balance includes $14 million for contingencies.

On March 11, 2025, the Board approved changes to the General Fund Contingency policy to require a fixed range of between $10 and $25 million. The range allows staff to recommend and establish a Contingency level during the annual budget process based on current expectations and knowledge of potential unavoidable expenditures. The current recommendation from staff for FY2025/26 is to maintain a $14 million contingency.

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 policy adopted on March 11, 2025, which is outlined in the Budget Construction and Legal Requirements section of the FY2025/26 Recommended Budget, the General Fund - General Reserve will be maintained at a target level equal to two to three months, or 16.7-25% of General Fund operating revenues, 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; reaffirmed on March 11, 2025).
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 FY2025/26 Recommended Budget for the General Fund - General Reserve is projected at $49.5 million. Based on Board policy, the minimum reserve target is 16.7% of General Fund operating revenues, which equates to $61.5 million in FY2025/26. The current County General Reserve is $49.5 million, which is 80.4% of the minimum target goal. Per Board direction on March 11, 2025, this reserve will need to funded / increased over a five-year period to achieve the minimum reserve target.


**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, 2024, (most recent actuarial report), the County's unfunded actuarial accrued liability for both the Miscellaneous Plan and Safety Plan is $799 million (70.9% Funded Ratio). This figure includes the former Court employees and Solano County Fair Association employees.

In FY2017/18, FY2018/19, FY2021/22, FY2022/23, FY2023/24, and FY2024/25 the Board of Supervisors authorized additional payments of $6.6 million, $6 million, $8.6 million, $5.6 million, $8.2 million, and $8.0 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 reduced the unfunded liability and reduced future pension costs to the County.

The FY2025/26 Recommended Budget for the Employer PERS Rate increases includes both the value of the IRS 115 Trust at $34.6 million and the Reserve for Employer PERS Rate Increase at $37.2 million for a total reserve of $71.8 million (*Schedule 4)*.

**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 with a report titled 2016 Facilities Condition Analysis, prepared by EMG of Walnut Creek (Consultant). A Facilities Condition Assessment (FCA) was conducted in FY2023/24. Condition information is used to set priorities in the CFIP. In-line with the Board approved 2016 FCA, the County is required to maintain a minimum investment of $3-$5 million annually (depending on cost of labor, materials, and equipment) to maintain the County facilities 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 endeavors to set aside a minimum of $3 million, if feasible and when possible, additional available one-time funding to address capital facility needs.

On February 11, 2025, the Department of General Services presented to the Board a status update on capital projects included in the FY2025/26 Recommended Budget. Based on a preliminary prioritization of projects under consideration, the department provided recommendations for funding specific projects.

The FY2025/26 Recommended Budget for Capital Renewal Reserve is $13.6 million and reflects a draw of $7.8 million from reserves 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 authorized staff to proceed with the replacement of the SCIPS. The total estimated cost to replace the SCIPS is $10 million and full implementation 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 were a loan to the project, repaid over time once the project was completed. In March 2023, the County went “live” with the new property tax system, the County Assessment and Taxation System (CATS) Project. The FY2025/26 Recommended Budget reflects no remaining balance in the Property Tax System Replacement reserve.

Approximately 42.5% of the total cost or an estimated $4.3 million will be recovered from cities and other agencies through the property tax administrative fee. The balance of $5.7 million will be a General Fund cost charged to the County Assessor, the Auditor-Controller, and the Tax Collector based on a seven-year loan repayment schedule as approved by the County Debt Advisory Committee.

**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 FY2025/26. The reserve has a current balance of $2.6 million. It is recommended that the Board utilize $2.0 million of this balance to fund Employee Accrued Leave Payoff in FY2025/26. The FY2025/26 Recommended Budget for the Unfunded Employee Leave Payoff reserve would be reduced to $0.7 million. It is currently anticipated that any remaining balance appropriated in the General Expenditures Budget for Accrued Leave Payoff for FY2024/25 will be applied to the General Fund Reserve for Accrued Employee Leave Payoff at year-end, increasing the balance to $2 million to comply with the Board’s policy as outlined in the Budget Construction and Legal Requirements section of the FY2025/26 Recommended Budget.

**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 FY2025/26 Recommended Budget for long-term receivables is $20.7 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. To date this funding has been utilized as a loan to MidPen Housing Corporation to create 35 units of affordable housing (Sunset Pines Apartments) and for a twenty-year purchase agreement for 20 transitional housing beds at the former Mission Solano (now known as Shelter Solano). In the FY2025/26 Recommended Budget, the current balance in the Housing / SB 375 reserve is $1.4 million. The County Administrator anticipates that some of these funds may be needed in FY2025/26 to provide local matching funds in addressing housing needs for at-risk or vulnerable populations.

**Technology and Communications**

To support long-term planning and ensure uninterrupted mission-critical operations, it is recommended that the Board establish a dedicated Technology and Communications Reserve to address future replacement costs and modernization of key infrastructure components, including P25 radios and associated communication equipment. Given the essential role these systems play in public safety and operational coordination, it is vital to anticipate end-of-life cycles and allocate funding proactively. The reserve will also cover other core technology assets such as network hardware, software licenses, and IT support systems. Establishing this reserve enhances fiscal responsibility, reduces the impact of unforeseen failures, and provides a structured approach to sustaining essential services. Recommendations to fund this new reserve will be brought forward to the Board at a later date.

## OVERVIEW OF THE FEDERAL AND STATE BUDGETS

**Federal Budget Update**

In March 2025, Congress approved, and President Trump signed into law a $1.7 trillion Continuing Resolution (CR) funding all federal departments and agencies through September 30, 2025. The final budget is consistent with appropriation levels set during the previous administration, with a notable decrease of $13 billion in non-defense spending, reflecting a cut of all federal earmarks, and an increase of $6 billion in defense spending now totaling $847 billion in discretionary defense spending which includes $3.3 billion for shipbuilding. The bill extended several expiring programs, including the National Flood Protection Program, Temporary Assistance for Needy Families (TANF), and several public health programs within Medicare and Medicaid.

The Office of Management and Budget has submitted the federal fiscal year (FFY) 2026 budget to Congress and it is currently under review. Early indications include a reduction of $163 billion, or a 22.6% reduction in non-defense discretionary spending with increases to defense spending totaling 13% and increases to Homeland Security totaling 65%. Both shipbuilding and aircraft funding make up the proposed increases to defense spending. If enacted, programs under consideration of elimination include those dealing with climate, education, and health and housing. It is anticipated that Congress will not approve a new budget by the October 1 deadline and a CR is likely in order to maintain federal funds for departments and agencies.

Staff will continue to monitor the federal budget and will return to the Board as necessary.

**State Budget Update**

The Governor is expected to release his proposed May Revision towards the end of the second week of May, which will reflect the revenue and expenditure trends during the first five months of 2025. While the State experienced significant surpluses in recent years, updated reporting from the Legislative Analyst's Office (LAO) project a balanced budget for FY2025/26. A revised State Budget Update will be included as part of the FY2025/26 Supplemental Budget.

State Revenue Trends

The LAO projects strong growth in the current fiscal year in the three largest taxable areas (income, corporate, and sales) with muted growth anticipated beyond the current year. Income taxes are the largest area of increase at $3.8 billion above projections and are attributed to stock market activity that is not anticipated to continue. Anticipated reduced consumer spending may impact sales tax collections, leading to weaker growth moving forward. There is an air of declining consumer sentiment due to concerns about the federal budget and tariff policy, leading to a stagnant economic forecast. In addition, since the Governor's budget was released during the Southern California wildfires, impacts from this disaster will be reflected in the May Revision.

An updated revenue forecast will be included as part of the May Revision.

May Revision and Budget Adoption

The Governor is expected to release his proposed May Revision towards the end of the second week of May. Once the Revision is released, the budget committee will work to finalize budget items and move to negotiations between the houses on the final legislative version of the budget, which in turn will lead the final negotiations on the budget which constitutionally is required to be approved by June 15. A revised State Budget Update will be included as part of the FY2025/26 Supplemental Budget.

## ECONOMIC RISKS

Nationally

In January 2025, the Congressional Budget Office (CBO) released "The Budget and Economic Outlook: 2025 to 2035" which projects a federal budget deficit of $1.9 trillion for 2025, and $2.7 trillion in 2035, and totals 6.2% of the Gross Domestic Product (GDP). The CBO is projecting debt held by the public will reach 118% of GDP by the end of FY2035. The Federal Reserve maintained the "federal funds" benchmark interest rate between 4.25% - 4.5% in May 2025 and it is uncertain how the ongoing rate reduction pause will continue amid levels of economic uncertainty around the impacts of current tariff policy on inflation. The U.S. Bureau of Labor Statistics reported an annual inflation rate totaling 2.4% as of March 2025, while the Federal Reserve aims to maintain an inflation rate of 2%. The average interest rate on a 30-year fixed mortgage totals 6.9% as of May 2025, mostly unchanged from the same time last year and a significant increase from a long span of historically low interest rates. In addition, the 10-year U.S. Treasury Bond totals 4.3% as of May 2025, down from 4.6% in May of 2024.

According to the Bureau of Labor Statistics, the unemployment rate as of April 2025 was 4.2%, up from 3.9% in April 2024. The Consumer Price Index for All Urban Consumers (CPI-U) rose 2.4% as of March 2025, from one year ago, with energy decreasing 3.3%, the food index increasing 3.0%, and all items less food and energy increasing by 2.8%. U.S. homebuilders continue to face challenges due to elevated interest rates and concerns related to tariffs, while retail markets continue to grow despite higher interest rates.

California

California is now the fourth largest economy in the world, totaling $4.1 trillion and with a growth rate of 6%, outpacing the other three top economies. While the State experienced significant surpluses in recent years, updated reporting from the Legislative Analyst's Office presents a balanced budget for FY2025/26, indicating deficits are likely in future years. The Legislative Analyst's Office reports that the Governor's budget includes $4.5 billion in a Special Fund for Economic Uncertainties, higher than in past years. California relies on high-income taxpayer stock-based compensation revenues, which can be volatile as rapid changes to stock values can significantly impact California's revenue. The Legislative Analyst's Office reports the proposed budget is relying again on the State's "rainy day" fund to balance the budget.

Unemployment figures total 3.9% in the San Francisco Metropolitan statistical area and 4.8% in the Sacramento Metropolitan statistical area as compared with the State's unemployment rate of 5.4%, as of February 2025. Housing continues to be a challenge statewide, with the pace of production not meeting demand. The high cost of home construction continues and is due to high labor and material costs.

Staff will be monitoring closely the State and federal economic developments and the budget decisions and will return to the Board as necessary.

## FY2025/26 GENERAL FUND RECOMMENDED BUDGET

The FY2025/26 Recommended Budget for the General Fund of $416 million is balanced anticipating revenues of $368.5 million, drawdowns from Committed Fund Balances of $9.8 million from Accrued Leave Payoffs, Capital Renewal, and use of Fund Balance ($37.7 million).

The Recommended Budget for General Fund reflects revenues of $368.5 million, an increase of $18.6 million excluding reserves when compared to the FY2024/25 Adopted Budget of $349.9 million. The increase in revenues anticipates a net increase in Tax

Revenues totaling $13.9 million, including taxes resulting from increased value in assessed roll, other tax revenue primarily due to improved property values, and increases in ABX1 26 Residual Taxes.

## 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 FY2024/25 Midyear projections prepared in February 2025 and are provided for comparison only, using the FY2025/26 Recommended Budget as the starting point for the upcoming year. The table reflects projected revenues and expenditures through FY2027/28. It is not feasible to provide a meaningful longer forecast in light of the changing economic dynamics, future labor contract negotiations, an uncertain federal Budget, and changes in State-mandated programs.

The FY2025/26 Recommended Budget and the projections are subject to change pending revenue and expenditure impacts from 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 to final approval of the FY2025/26 Adopted Budget.

**Solano County**
**General Fund - Fiscal Projection**
**FY2025/26 Recommended Budget**
**(in million of dollars)**

| | | Midyear Projection For 6/30/25 | Recommended Budget FY2025/26 | Projected Budget FY2026/27 | Projected Budget FY2027/28 |
|---|---|---|---|---|---|
| a | **General Fund, Beginning Balance** | $ 51.58 | $ 37.66 | $ 14.00 | $ (10.65) |
| | TO Reserves: | | | | |
| | General Reserves | | | | |
| | Unfunded Employee Leave Payoff | | | | |
| | Capital Renewal Reserve | 13.495 | 7.842 | | |
| | Employer CalPERS Rate Increases | | | | |
| | PARS 115 Trust | | | | |
| | Assigned - GVOS | 0.062 | 0.118 | | |
| b | Subtotal - TO Reserves | 13.557 | 7.961 | 0.000 | 0.000 |
| | FROM Reserves: | | | | |
| | General Reserves | | | | |
| | LT Receivables | | | | |
| | Unfunded Employee Leave Payoff | 2.000 | 2.000 | 1.500 | 1.500 |
| | Capital Renewal Reserve | 11.621 | | 4.000 | 4.000 |
| | Employer CalPERS Rate Increases | | 7.819 | | |
| | Encumbrances | 0.684 | | | |
| c | Subtotal - FROM Reserves | 14.305 | 9.819 | 5.500 | 5.500 |
| d | **Net Increase (Decrease) in Funding Sources: (b+c)** | 0.747 | 1.858 | 5.500 | 5.500 |
| e | **TOTAL AVAILABLE FINANCING (a+d)** | 52.324 | 39.523 | 19.500 | (5.154) |
| f | Operating Expenditures (excluding Contingencies/transfers to Reserves) | 379.207 | 394.044 | 401.333 | 406.573 |
| g | Contingencies | 14.000 | 14.000 | 14.000 | 14.000 |
| h | **Total Operating Expenditures** | 393.207 | 408.044 | 415.333 | 420.573 |
| i | Operating Revenues (excluding transfers from Reserves) | 362.547 | 368.521 | 368.114 | 378.210 |
| j | Operating Expenditures (excluding Contingencies/transfers to Reserves) | 379.207 | 394.044 | 398.268 | 408.762 |
| k | **Net operating Revenues over (under) Expenditures [known as Operational Deficit] (i-j)** | $ (16.659) | $ (25.523) | $ (30.154) | $ (30.551) |

* *General Fund, Beginning Balance in FY2025/26 includes estimated additional savings from County departments as projected at Midyear. FY2026/27 and FY2027/28 are anticipated to be higher than shown in chart above based on historical trends in savings realized in departments. Any increases in compensation resulting from future labor negotiations are not included in fiscal projection. Contributions to Reserves are not included in FY2026/27 and beyond.

* Operating Expenditures in FY2025/26 include a $7.842 million General Fund contribution to Accumulated Capital Outlay for capital projects as outlined in the ACO BU 1700 Departmental Budget. FY2026/27 and FY2027/28 Beginning Fund Balance 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 FY2025/26.

**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 FY2025/26 Recommended Budget includes the use of General Fund – Committed Fund Balances of $7.819 million from Capital Renewal and $2.0 million from Unfunded Employee Leave Payoff.

The significant revenue assumptions from the General Revenues budget include:

- An estimated 3% increase in assessed values compared to the FY2024/25 corrected assessment roll, resulting in projected increases of $5.4 million in Current Secured Property Taxes and $3.5 million in property tax in-lieu of vehicle license fees (VLF) revenues. Projections in FY2026/27 and FY2027/28 anticipate increases of 4%. Based on the corrected assessment roll as of June 30, 2024, 4,353 properties still remain on Proposition 8 Tax Reduction status related to the negative economic impacts from the Great Recession. The number of properties under Proposition 8 Tax Reduction status will remain under evaluation by the Assessor/Recorder.
- Supplemental Secured Property Taxes is expected to increase $2.0 million due to the collection of past year supplemental tax bills. Due to the County's transition to a new property tax system, supplemental bills were temporarily delayed, resulting in a projected one-time increase.
- ABX1 26 Taxes are projected to increase by $1.4 million based on projected tax increment revenues.
- Current Unsecured Property Taxes are projected to increase $1.4 million based on anticipated increases in business property values.

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 reflects $50.2 million in Proposition 172 funding. FY2025/26 anticipates a 1.3% decrease from the FY2024/25 Adopted Budget based on changes in the distribution formula as the State's economy has been impacted by inflationary measures, statewide decline in retail sales, and a potential recession. As Proposition 172 funds decrease for the County, the Public Safety Fund (Fund 900) departments may require an increase in County revenue support in the delivery of mandatory services.
- The FY2025/26 Recommended Budget reflects $75.1 million drawdown in 1991 State – Local Realignment revenues, an increase of $3.8 million; and $115.4 million in 2011 Realignment funds, an increase of $1.2 million. The draw of Realignment funds is used to maintain programs primarily in H&SS and Public Safety. The increase in 1991 Realignment represents a higher need to cover projected cash flows. 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 or programs may need to be adjusted.

**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 32.58% for Miscellaneous and 39.13% for Safety in FY2025/26.
- Health insurance costs are projected to increase 5% per year based on past rate history for FY2025/26, with 5%-7% annual increases likely in future years.
- Labor costs in FY2025/26 reflect the annualized cost increases for the collective bargaining agreements approved in FY2022/23. The FY2025/26 Recommended Budget reflects no changes in compensation resulting from upcoming labor negotiations.
- The County General Fund Contributions through FY2025/26 are listed below:
    - General Fund support for Public Safety is projected to increase from $174.6 million to $181.0 million; a $6.4 million net increase. This increase is primarily due to increases in wages, retirement, health benefits, insurance, Countywide Administrative Overhead, and inmate costs. In addition, the increase is also due to decreases in institutional care and Proposition 172 revenues.

- General Fund support for H&SS and IHSS Public Authority is projected to decrease from $56.3 million to $55.4 million; a $0.9 million decrease. The decrease is primarily due to prior year, one-time transfers in from the American Rescue Plan Act (ARPA) Coronavirus State and Local Fiscal Recovery Funds (SLFRF) to address the structural deficit in Family Health Services (FHS) due to insufficient revenue generated by the Primary Care and Dental Clinics. All remaining funds designated by the Board to be used under the ARPA-SLFRF Revenue Replacement category were transferred in FY2024/25. For FY2025/26, the structural deficit in FHS will be primarily funded with 1991 Public Health Realignment.

- The FY2025/26 Recommended Budget includes a Contingency appropriation of $14 million.

**General Fund Deficit Reduction Strategies for FY2025/26 if Revenue Shortfall:**

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

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

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

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

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

***Strategy 5:*** *Continue reducing the County's footprint in buildings in Fairfield, Vallejo, and Vacaville and move employees out of leased space 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

<u>Board of Supervisors' Priorities</u>: On April 18, 2023, the Board conducted a priority-setting workshop. Board members identified several topics which were grouped into five major categories: Economic Development, Agriculture Preservation and Development, Housing, County Workforce Development, and County Services - Regulations and Policies. On October 8, 2024, the Board held a second session to provide additional feedback and direction. Staff continues to make progress and will be providing an update on department workplans and continuing efforts related to the implementation of Board priorities in the coming months. Departments continue to evaluate funding needs related to the implementation of Board priorities and any additional funding for the implementation of specific action items related to Board priorities are included as part of the FY2025/26 Recommended Budget.

<u>Supplemental Budget</u>: 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 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 2025. To accommodate the release, the departmental budgets reflect only the known and approved State and federal programs changes as of April 2025, which will take effect July 1, 2025.

<u>Proposition 1</u>: Proposition 1, approved by voters in March 2024, contained two broad components: 1) changes the Mental Health Services Act (MHSA) to the Behavioral Health Services Act (BHSA) and adjusts funding and funding categories; and 2) approves a $6.4 billion bond to build more facilities for mental health care and drug or alcohol treatment, and more housing for people with mental health, and drug or alcohol challenges. While Proposition 1 makes no changes to the amount of revenue collected through the tax, it does reduce the amount available to counties and how counties may use the funding. Most significantly, BHSA creates a requirement that one-third (30%) of the funds allocated to each county must be spent on housing. It also shifts 10% of the funding (versus 5%) from counties to the State for workforce initiatives and prevention. Another significant change will be made to the planning process for BHSA requiring an Integrated Plan for all behavioral health services that includes budget and outcome information across all funding sources. Implementation activities are underway in order to adhere to the new Integrated Plan required by July 1, 2026.

<u>Child Welfare Services:</u> Foster Family Agencies (FFAs) are required to maintain insurance. The largest insurance provider for California FFAs, Nonprofits Insurance Alliance of California (NIAC), announced in 2024 that it would no longer renew policies for

FFAs. As a result, FFAs are being forced to seek new insurance providers, often at significantly higher costs. This financial strain has put many FFAs at risk of closure as their insurance policies expire.

As of December 2024, there are 108 children placed in an FFA. There is growing concern that potential FFA closures could lead to the displacement of some or all of these children. The situation is being closely monitored to ensure that the well-being and placement stability of these children are not adversely affected.

In-Home Supportive Services (IHSS): IHSS Public Authority (PA) and SEIU 2015 completed negotiations in 2021, which fixed the IHSS provider wage at $1.20 over the California State minimum wage. In January 2023, the California minimum wage increased to $15.50 per hour. As a result of this increase, the Solano IHSS wage was fixed at $16.70 per hour through 2024. On January 1, 2025, the California minimum wage increased to $16.50 per hour. As a result of this increase, the Solano IHSS wage increased to $17.70 per hour. IHSS Providers in Solano County who work more than 65 hours per month remain eligible for a supplemental health plan that includes prescriptions, vision, and dental care paid for by the IHSS PA.

IHSS PA and SEIU 2015 labor contract expired on June 30, 2024. When the successor contract is completed, it is anticipated that there will be changes in wages or benefits resulting in increased costs and adjustments.

Family Health Services - Clinics: Family Health Services (FHS) continues to focus on operational, quality, and process improvements in order to optimize client services, quality outcomes, and revenue generation and anticipates implementing a number of changes, including provision of a patient portal, improved communication with clients using telehealth, and more robust appointment scheduling. With the completion of the implementation of OCHIN EPIC, electronic medical record system, provider performance and client throughput, as well as access to quality data is anticipated to substantially improve, which can improve overall patient outcomes as well as generate encounter-based revenue.

In order to improve the financial sustainability of the clinics, FHS is pursuing several initiatives, including encounter rate adjustments for each of the FHS clinics, increased quality indicator revenue from Partnership HealthPlan of California (PHC), and increased provider productivity. Chiropractic services have been added to the three adult primary care clinics and licensed marriage and family therapy services at the Fairfield pediatric clinic. These new services have been approved by Health Resources and Services Administration (HRSA) and will trigger reassessment by the California Department of Health Care Services of the current encounter rates at each of the FHS clinic sites. The outcome of this effort is estimated to be completed in spring 2026 with any rate adjustments retroactive to July 1, 2025. This effort is not anticipated to fully eliminate the structural deficit and productivity (daily encounters) will also need to increase.

On April 25, 2025, Solano County Family Health Services received an official notice from Partnership HealthPlan of California stating that FHS was placed on a network management Corrective Action Plan (CAP) due to the lack of necessary improvements to increase access and quality for pediatric members at the Vacaville and Vallejo clinic sites. The two clinic sites demonstrated low rates of well-child visits and member grievances related to pediatric appointment availability. As a result, FHS will not be open to new pediatric patient assignments until improvement is found as measured by a plan to meet timely access standards, increase appointment access for pediatric patients before December 31, 2025, and reduce grievances related to appointment access. Opening of the Vacaville and Vallejo clinic sites for new pediatric patients would be considered after December 2025 if notable improvements are found.

California Advancing and Innovating in Medi-Cal (CalAIM): As part of California Advancing and Innovating Medi-Cal (CalAIM) implementation, Medi-Cal managed care plans are required to work with county public health and behavioral health agencies to develop Community Health Needs Assessments. For about 20 years, Solano County Public Health has worked with health care agencies, including Kaiser Permanente, NorthBay Medical Center, and Sutter Solano Medical Center to develop the Community Health Needs Assessment. This partnership will be expanded to Solano County Behavioral Health and Partnership HealthPlan of California. Additionally, Solano County Public Health will continue to work with these partners to develop the Community Health Improvement Plan and use it as a tool for prioritizing funding and contracts with community-based organizations. The next Community Health Assessment update process will begin in 2025.

Lanterman-Petris-Short (LPS): Senate Bill 43, which is an unfunded mandate, expands California’s Lanterman-Petris-Short (LPS) conservatorship law by updating the criteria for determining if a person is “gravely disabled,” the standard for LPS conservatorship eligibility. The new definition allows for consideration of whether a person fails to provide for their own medical care or personal safety and includes not just mental illness, but also severe substance use disorder and chronic alcoholism. There is currently an insufficient number of treatment beds to support those with mental health and even fewer beds for those needing SUD residential or withdrawal management/detox. On December 15, 2023, the Board approved deferring implementation until January 2026 to provide time for reviewing and updating policies, 5150 training for staff and peace officers, development of workflows and data tracking of involuntary holds, and increasing treatment beds for crisis and inpatient services. A priority in the next year will be to develop or expand inpatient, sobering centers, and crisis and residential placements for the increasingly eligible group of people.

<u>State Department of Health Care Services (DHCS) Providing Access and Transforming Health (PATH) Justice-Involved Initiative</u>: The DHCS PATH Justice-Involved Initiative allows incarcerated individuals to enroll in Medi-Cal and receive targeted services up to 90 days before their release. California became the first state approved to offer these Medicaid services to eligible youth and adults in state prisons, county jails, and youth correctional facilities. The initiative ensures continuity of healthcare coverage and services during incarceration and post-release, providing medications, medical equipment, and transition support. Successful implementation requires collaboration across multiple agencies, including Behavioral Health, Public Health, Probation, Department of Information Technology, and community organizations. While the PATH funding supports planning and initial implementation, it is not intended to cover ongoing operating costs beyond the startup phase. Solano Behavioral Health is pending the Sheriff's Office implementation of PATH requirements that include electronic health records and Medi-Cal billing within the jail in order to coordinate care pre-release and support early access to services.

<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 an estimated allocation of $21.1 million to fund 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.

<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. Proposition 172 is projected at $50.2 million in the Recommended Budget, representing an increase from revenues projected at FY2024/25 Midyear. The County is anticipating a decrease in Proposition 172 revenues under the current year's Adopted Budget as the State's economy has been impacted by inflationary measures, a statewide decline in retail sales, and a potential recession. Staff is working with HdL, the County's Sales Tax consultant, to monitor the statewide trend in Proposition 172 funding and will update the Board as necessary during the year.

<u>Proposition 36</u>: On November 5, 2024, Proposition 36, known as "The Homelessness, Drug Addiction, and Theft Reduction Act" was passed and went into effect on December 18, 2024. Prop. 36 modifies existing law and adds substantive charges and enhancements to areas of the Penal Code and Health and Safety Code regarding theft, property damage, and drug-related crimes. It establishes a Treatment Mandated Felony option which is triggered by meeting certain criteria and prior drug convictions. Probation, Behavioral Health, and the Sheriff's office are working collaboratively with the Court to address the impacts.

<u>Juvenile Justice SB 823:</u> Senate Bill 823 outlines the process for the closure of the Division of Juvenile Justice (DJJ), effective July 1, 2021. As a result, counties have been expected to serve these youths locally. The legislation also included 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. Probation will continue to work with the Juvenile Justice Coordinating Council (JJCC), treatment providers, and other stakeholders to meet the needs of this population in detention and in the community. The SB 823 funding formula is currently in the process of being reviewed by the Office of Youth and Community Restoration (OYCR) and resulting changes may impact services and staff of the Secure Youth Treatment Facilities (SYTF) program.

<u>Property Tax Appeals / Prop 8 Values:</u> As of May 5, 2025, there are 707 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 $3.0 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, 2024, 4,353 of the County's 154,505 assessed parcels remain on Proposition 8 status, compared to 78,000 parcels in 2012.

Fire Risk: The risk of additional fire-related emergencies in Solano County is ongoing. Due to the likelihood of fire danger, it is expected that there will be Public Safety Power Shutoff (PSPS) events in FY2025/26 despite PG&E's efforts to harden its system and refine PSPS boundaries to minimize the impacts on its customers. The County continues to focus on resiliency and preparedness for fire-related emergencies. County staff remain ready to respond and coordinate with other agencies as needed through the Emergency Operations Center (EOC) and Emergency Operations Plan should an emergency occur.

Law Enforcement Services to Cities: Currently, the Sheriff's Office provides contracted law enforcement services to the City of Rio Vista. Over the last two years, the City of Vallejo has experienced significant officer vacancies and, together with financial troubles, has asked the Sheriff's Office for assistance. The Sheriff's Office has provided limited support; however, the City is requesting dedicated temporary assistance until they can hire adequate staffing. Options and associated costs have been explored and a terms sheet was provided to the City of Vallejo in December of 2024. The Sheriff requested Board authorization to move forward with contract negotiations on May 6, 2025. The Sheriff's Office plans on returning to the Board with a proposed contract no later than June 24, 2025 with a twelve-month service contract beginning January 2026. The potential need for contracted law enforcement services may continue to arise as other cities within Solano County are experiencing staffing shortages combined with lower operating revenues.

## SUMMARY OF RECOMMENDATIONS

For Board consideration are recommended budgets as outlined in the following pages of this document. In submitting a balanced budget, the County Administrator utilized an available Fund Balance of $37.7 million as reflected in the FY2024/25 Midyear projection. If the FY2024/25 Midyear projection for Fund Balance is not met, or there is an unanticipated shortfall in the FY2024/25 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, 2025 exceeds the Midyear projections for FY2024/25, 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 FY2025/26 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 $10 million to Deferred Maintenance/Capital Renewal Reserves.
2. Any amount up to $10 million to the CalPERS Reserves and/or 115 Trust.
3. Any amount up to $5 million to the Technology and Communications Reserve.
4. Any amount up to $2 million to Accrued Leave Payoff.
5. Any amount up to $5 million to General Fund Reserves.

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