COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: May 26, 2023

TO: Board of Supervisors

FROM: Bill Emlen, County Administrator

SUBJECT: FY2023/24 Recommended Budget

Staff recommends that the Board of Supervisors conduct Budget Hearings beginning at 9:00 a.m. on June 22, 2023 and take action to adopt the Budget at the conclusion of the hearings. During the hearings, along with approval of the FY2023/24 Budget, the Board will need to consider 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 meet are meeting current responsibilities while also planning for the future opportunities and economic uncertainty.

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 and labor costs, all while managing the challenges presented by a competitive labor market. The FY2023/24 Recommended Budget reflects our steadfast commitment to balance increasing labor costs and service demands while continuing to address Board adopted Budget Strategies and sound financial practices. 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. We are recommending that one-time American Rescue Plan Act (ARPA) Coronavirus State and Local Fiscal Recovery Funds (SLFRF) funding of $5 million previously designated by the Board under the U.S. Treasury Category of Revenue Replacement primarily to be used to fund a structural deficit in Health & Social Services' (H&SS) Family Health Services Division resulting from insufficient revenues at the clinics. In conjunction with this one-time funding, H&SS will be evaluating clinic operations in the coming year with a focus on organizational changes that would reduce the structural deficit.

The FY2023/24 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 that we have monitored since the Great Recession. 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 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) FY2023/24 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 FY2023/24				
FUND NAME	FY2022/23 ADOPTED BUDGET	FY2023/24 RECOMMENDED	CHANGE	% CHANGE
GENERAL FUND	$ 362,155,044	$ 378,475,487	$ 16,320,443	4.5%
SPECIAL REVENUE FUNDS	$ 946,950,778	$ 1,090,804,819	$ 143,854,041	15.2%
CAPITAL PROJECT FUNDS	$ 36,421,253	$ 37,792,567	$ 1,371,314	3.8%
DEBT SERVICE FUNDS	$ 16,537,185	$ 20,345,699	$ 3,808,514	23.0%
TOTAL GOVERNMENTAL FUNDS	**$ 1,362,064,260**	**$ 1,527,418,572**	**$ 165,354,312**	**12.1%**
BUDGETED POSITIONS	3,228.58	3,238.33	9.75	0.3%

The FY2023/24 Recommended Budget for all Governmental Funds is balanced and totals $1,527,418,572 (*Schedules 1 and 2*). The Recommended Budget represents an increase of $165.4 million or 12.1% when compared to the FY2022/23 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 $143.9 million in the Special Revenue Funds, primarily due to increases in Public Safety, Health & Social Services, American Rescue Plan Act (ARPA), and other funds. The Capital Project Funds have increased by $1.4 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 $16.3 million is primarily due to increases in Tax revenues, Charges for Services, and a one-time transfer of ARPA - SLFRF funding to Health and Social Services' Family Health Services Division to help fund the structural deficit in Family Health Services resulting from insufficient revenues at the clinics. The increases in various revenues are offset by increases in appropriations in General Fund departments, primarily reflecting increased labor costs due to negotiated and approved labor contracts, and increased General Fund contributions to Public Safety and Health and Social Services when compared to the FY2022/23 Adopted Budget. The Debt Service Funds reflect an increase of $3.8 million when compared to the FY2022/23 Adopted Budget due to anticipated pension contributions towards future Pension Obligation Fund debt payments. Overall, the FY2023/24 Recommended Budget for All Governmental Funds increased by 12.1% when compared to the FY2022/23 Adopted Budget.

The FY2023/24 Recommended Budget uses the March 2023 Midyear Financial Report projected Fund Balances for 6/30/2023 and draws down $23.1 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. FY2023/24 uses some draws from designated reserves for accrued leave, capital renewal, and long-term receivables to fund liabilities for employee accrued leave payoff costs, costs for the major maintenance and capital improvements of County facilities, for investments towards improving the County's public safety radio system, and the acquisition of the Vallejo Early Learning Center.

The Recommended Budget reflects a workforce of 3,238.33 FTE positions, excluding extra-help positions and makes assumptions that most existing vacancies would be filled. Budgeted positions reflect a net increase of 9.75 FTE compared to the FY2022/23 Adopted Budget. This increase is the result of a net 5.75 FTE increase in positions approved by the Board during the fiscal year, and a net 4.0 FTE increase (including expiring Limited-Term positions) included in the FY2023/24 Recommended Budget for the

Board's consideration. 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 FY2023/24 Recommended Budget.

FINANCIAL SUMMARY

The Governmental Funds Spending Plan by Function graph portrays a total of $1.527 billion. The graph indicates the percent of the total for each functional area required within the Governmental Funds.

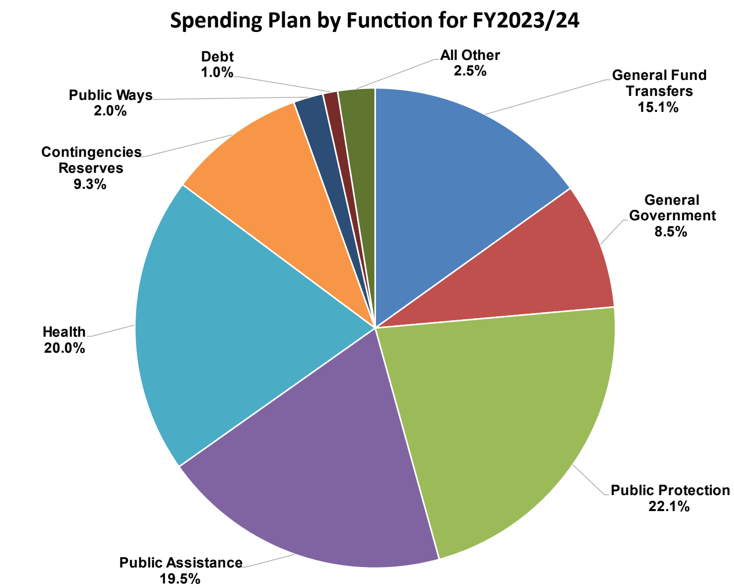
Public Protection represents the single largest category of County appropriations at 22.1% in the FY2023/24 Budget, which is a decrease from 22.8% in the FY2022/23 Adopted Budget. Public Protection spending is projected to increase $27 million in FY2023/24 with the largest increases being in wages due to negotiated and approved labor contracts, inmate costs, insurance costs, Countywide Administrative Overhead charges, and Central Data Processing charges.

Public Assistance, at 19.5%, and Health, at 20.0%, represent the social safety net function of County government, which together represent an increase from FY2022/23. Public Assistance spending is projected to increase by $69.7 million in FY2023/24, primarily due to increases in the County's use of ARPA-SLFRF funding and increases in social services programs such as Medi-Cal, CalWORKS, and CalFresh. Health spending is projected to increase $33 million in FY2023/24, primarily due to increases in Behavioral Health programs and for costs to renovate the First 5 Vallejo Early Learning Center (offset by State and local funding sources).

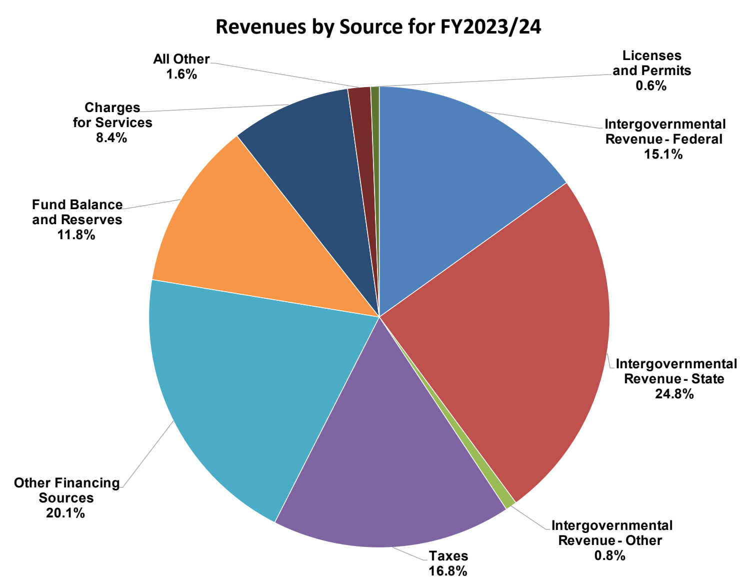
General Fund Transfers represent a 15.1% share of the FY2023/24 Recommended Budget, reflecting the increases in Public Safety costs, social services programs, and costs for capital improvements.

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 39.9% of the Recommended Budget and generally have specific requirements on how funding can be used. Intergovernmental Revenue from State and federal agencies reflect an increase of $91.3 million primarily due to one-time ARPA-SLFRF funding, increases in funding for Mental Health Services Act (MHSA) programs, and federal funding to support social services programs. Taxes represent 16.8% of the FY2023/24 revenue projections, a decrease from 17.8% from FY2022/23.

Other Financing Sources, which includes the transfer of funding between government budgets, represents 20.1% share of the FY2023/24 projected revenues, which is up from 19.6% share in FY2022/23. Fund balance and reserves represents an 11.8% share of the FY2023/24 revenues, a slight increase from FY2022/23.



GOVERNMENTAL FUNDS
Total: $1,527,418,572



The General Fund Spending Plan (*Fund 001*) graph portrays a total of $378.5 million. The Public Safety category represents the single largest category of expenditures at 43.5% of the FY2023/24 Spending Plan, which is an increase from a 41.3% proportional share in FY2022/23. This category includes the Sheriff, District Attorney, Public Defender, Alternate Public Defender, Other Public Defense, and Probation.

The General Government/All Other category represents a 32.2% share in FY2023/24, the same proportional share as in FY2022/23. Functions listed under this category include Agricultural Commissioner, Resource Management, Registrar of Voters (ROV), General Government, courts Maintenance of Effort (MOE), and other MOEs.

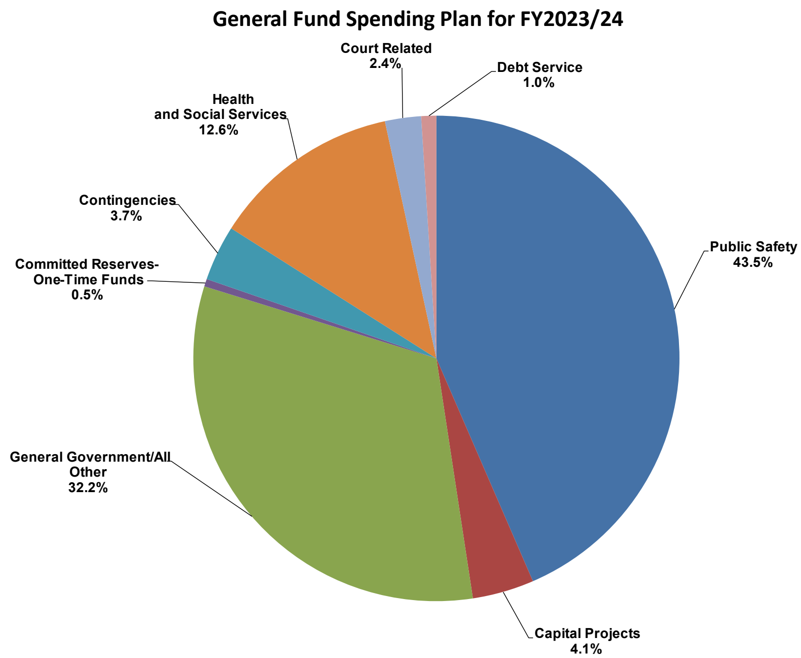
Health & Social Services is the third largest category of General Fund use at 12.6% of the total, which is up from a 10.1% share in FY2022/23. The General Fund contribution to Health & Social Services is projected to increase by $11.5 million in FY2023/24.

The FY2023/24 Recommended Budget includes the allocation of $2 million in one-time funds to Committed Fund Balances to address future capital renewal costs.

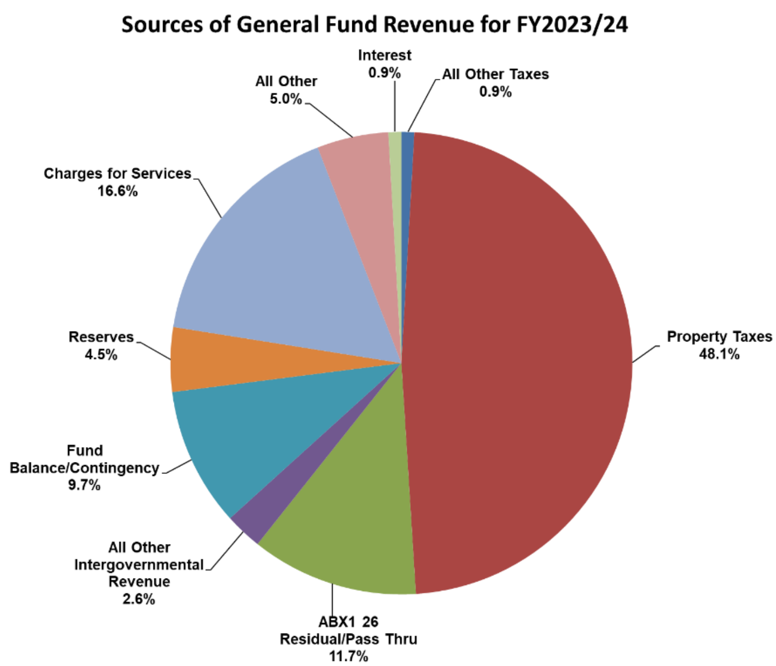
The Sources of General Fund Revenue graph provides information concerning General Fund financing for County operations. General Fund revenue is projected to increase by $27.8 million from the FY2022/23 Adopted Budget, primarily due to increases in property taxes, ABX1 26 taxes, interest income, Charges for Services, and one-time ARPA-SLFRF funding previously designated by the Board under the U.S. Treasury Category of Revenue Replacement to be used to fund the structural deficit in Family Health Services resulting from insufficient revenues at the clinics.

Revenues derived from property values account for over half of General Fund revenues, with Property Taxes at 48.1% and ABX1 26 residual taxes and passthrough 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 $12.7 million in these property related revenues when compared to the FY2022/23 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 9.7%. The General Fund projected Fund Balance at the end of FY2022/23 becomes a means of financing for the FY2023/24 Recommended Budget.



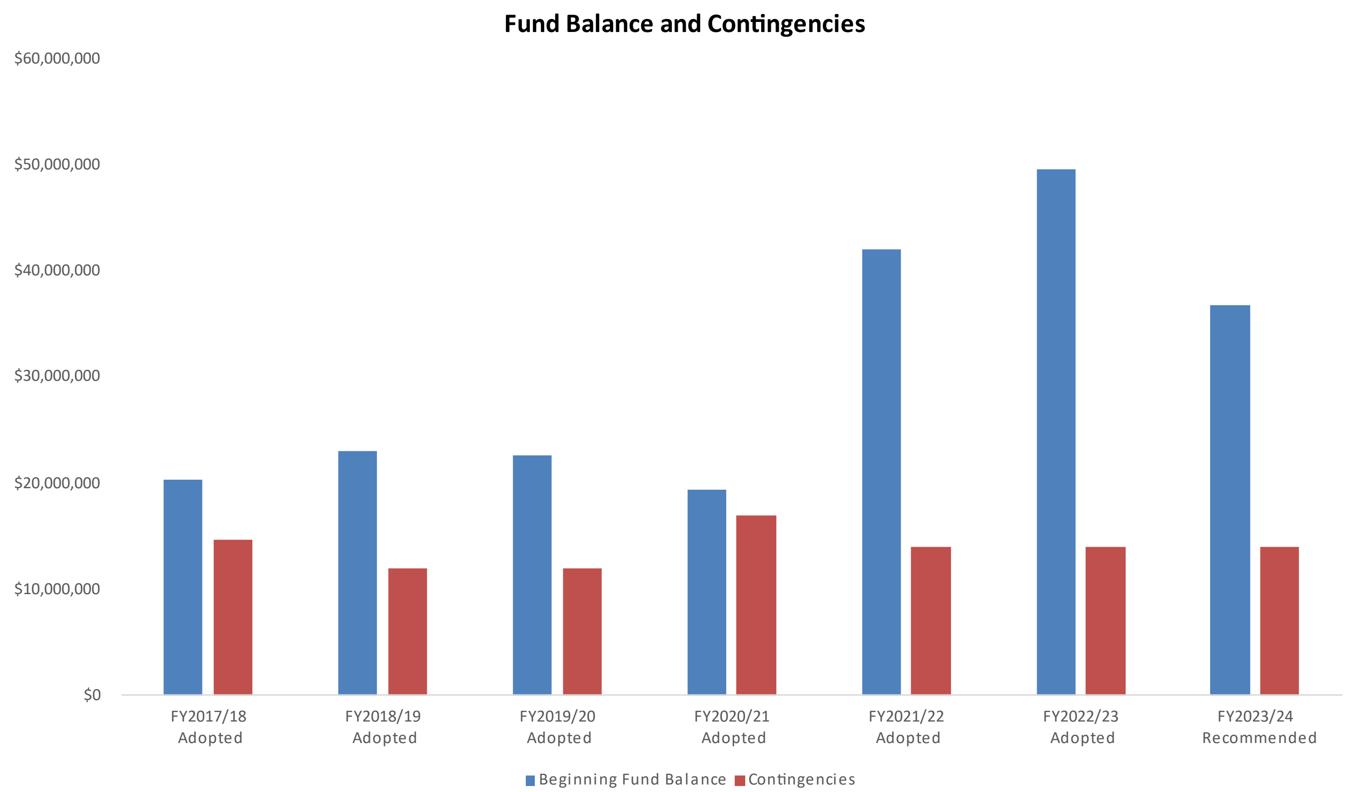
GENERAL FUND
Total: $378,475,487



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.

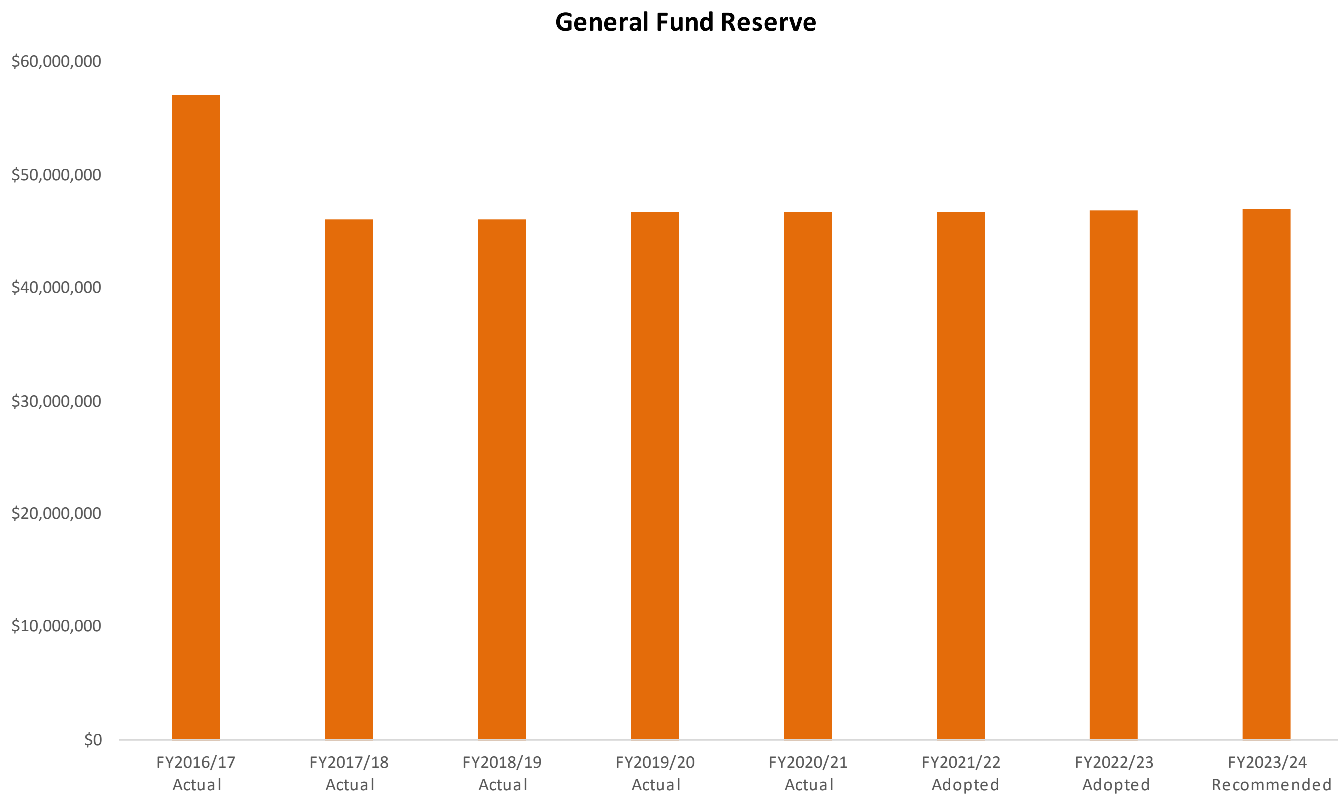
In good economic times the Board has consciously set monies aside to fund and finance some of the General Fund obligations, liabilities, and responsibilities. The strong fiscal policies established in the 1990's and maintained by the Board and the execution of those policies by the County departments 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 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, 2023 is projected at $36.7 million and is based on the FY2022/23 Midyear projection. 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 FY2023/24 is to maintain a $14 million contingency which is approximately 3.7% of Proposed General Fund Expenditures. This recommended contingency amount is below what is established in the policy, which would allow up to $37.8 million (or 10% of the General Fund total budget) based on the FY2023/24 Recommended Budget.

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 FY2023/24 Recommended Budget, the General Fund - General Reserve will be maintained at a level equal to 10% of the County's total budget excluding transfers between funds (*Operating Transfers-Out/In*), 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.

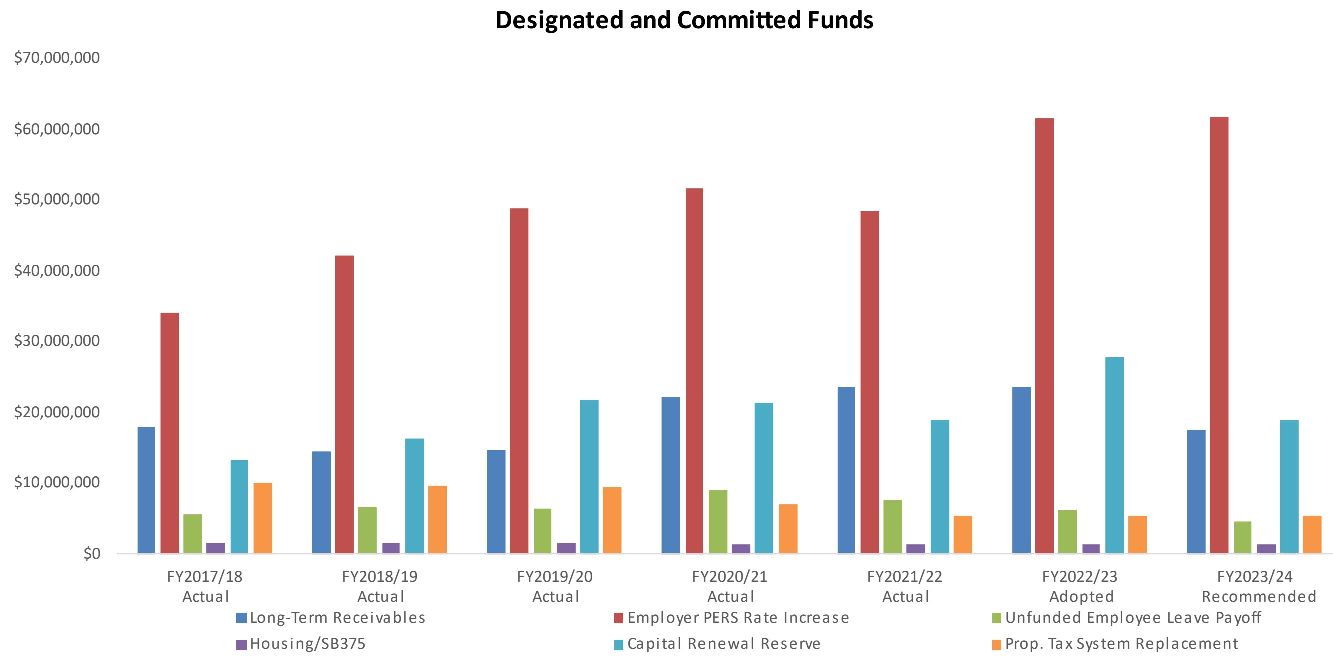
In circumstances where the General Fund - General Reserve has fallen below the established level, the County shall replenish the deficiency within five fiscal years, or as soon as economic conditions allow, from the following revenue sources: year-end surpluses, non-recurring revenues, or if legally 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 FY2023/24 Recommended Budget for the General Fund - General Reserve is projected at $47 million. Based on Board policy, the reserve target is 10% of the County's total budget, excluding interfund transfers, which equates to $122.8 million in FY2023/24.

The current County General Reserve is $47 million, which is 38.3% 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, 2022, (most recent actuarial report), the County's unfunded actuarial accrued liability for both the Miscellaneous Plan and Safety Plan is $449 million (82% Funded Ratio). This figure includes the former Court employees and Solano County Fair Association employees.

In FY2017/18, FY2018/19, and FY2021/22 the Board of Supervisors authorized additional payments of $6.6 million, $6 million, and $8.6 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 reduced the unfunded liability and reduced future pension costs to the County.

The FY2023/24 Recommended Budget for the Employer PERS Rate Increases includes both the value of the IRS 115 Trust at $32.5 million and the Reserve for Employer PERS Rate Increase at $29.4 million for a total reserve of $61.9 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) and is scheduled to be updated in 2023. 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 7, 2023, the General Services Department presented to the Board a status update on capital projects included in the FY2023/24 Recommended Budget. Based on a preliminary prioritization of projects under consideration, the department provided recommendations for funding specific projects.

FY2023/24 Recommended Budget for Capital Renewal Reserve is $19 million and reflects a net draw of $7.4 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 system. The total estimated cost to replace the SCIPS system 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 are e a loan to the project, repaid over time once the project is completed. The FY2023/24 Recommended Budget reflects a Property Tax System Replacement reserve remaining balance of $5.5 million as of May 10, 2023. It is anticipated that at the end of FY2022/23 the reserve balance will be approximately $548,000. On March 1, 2023, the County went "live" on the new property tax system: County Assessment and Taxation System (CATS). The remaining reserve balance will be utilized to continue post go-live activities including archival system training on the new system.

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 FY2023/24. The reserve has a current balance of $6.2 million. It is recommended that the Board utilize $1.5 million of this balance to fund Employee Accrued Leave Payoff in FY2023/24. The FY2023/24 Recommended Budget for the Unfunded Employee Leave Payoff reserve is reduced to $4.7 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. As of June 30, 2023 the long-term receivables balance is $23.7 million and includes $6 million in funds previously set-aside as a loan to the County Disaster Fund. The FY2023/24 Recommended Budget includes a proposal to reallocate this $6 million to partially fund the replacement of the County's public safety radio system ($4 million) and the acquisition of the Beverly Hills Elementary School Property for the Vallejo Early Learning Center ($2 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 FY2023/24 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 FY2023/24 to provide local matching funds in addressing housing needs for at-risk or vulnerable populations.

OVERVIEW OF THE FEDERAL AND STATE BUDGETS

Federal Budget Update

In December 2022, Congress approved, and President Biden signed into law a $1.64 trillion fiscal year (FFY) 2023 omnibus budget package. The *Consolidated Appropriations Act* (P.L.117-328) provides resources for every federal department and agency through September 30, 2023 and includes emergency funding for natural disasters, as well as supplemental aid to Ukraine and North American Treaty Organization (NATO) allies.

The budget provides nearly $773 billion in domestic discretionary funding for the current fiscal year (5.5% increase over previous levels). With regard to defense programs, the omnibus includes a total of $858 billion in budgetary resources, which is consistent with the amount of funding authorized by the *National Defense Authorization Act* for FFY2023.

The final budget package provides funding increases for several programmatic areas that are of importance to Solano County, including transportation, housing and homelessness programs, health and human services, climate and resiliency initiatives, local law enforcement, and energy and water programs.

The budget also directs billions of dollars in funding to thousands of community projects, also known as earmarks. Solano County was fortunate to receive $3.39 million for the Stevenson Bridge Rehabilitation Project, as well as $1 million for the County to upgrade its Electronic Health Record (EHR) system.

The final budget also includes language that provides Medicaid (Medi-Cal) and Children's Health Insurance Program (CHIP) coverage to incarcerated juveniles 30 days prior to their release. The policy change will take place starting January 1, 2024. States also will have the option to provide Medicaid and CHIP coverage to juveniles in public institutions during the initial period pending disposition of charges. Under previous law, states were generally prohibited from using federal funds such as Medicaid and CHIP to provide medical care to inmates of a public institution.

Finally, the budget reauthorizes through September 30, 2023 the Temporary Assistance for Needy Families (TANF/CalWorks) program and renews, at significantly higher funding levels, the Maternal, Infant and Early Childhood Home Visiting (MIECHV) program.

Outlook – Fiscal Year 2024

In March 2023, President Biden unveiled his FFY2024 budget request to Congress which calls for more than $1.7 trillion in federal discretionary spending (a 5% increase over FFY2023 enacted levels). This includes over $688 billion for non-defense domestic programs (a 7% increase), $886 billion for defense-related programs (a 3% increase), and $121 billion for Veterans Affairs programs.

The president's budget proposes a new 25% tax on billionaires, as well as an increase in the corporate tax rate (from 21% to 28%), and an increase in the tax on stock buybacks (from 1% to 4%). According to the administration, these reforms would reduce the deficit by nearly $3 trillion over the next decade.

Aside from the proposed new taxes, the Biden administration is calling on Congress to restore the expanded Child Tax Credit that expired in 2021. The budget framework also includes funding for a federal-state partnership aimed at expanding free preschool and revives legislative proposals aimed at providing national paid leave and free community college.

House Republicans are proposing to cut FFY2024 spending to FFY2022 levels (a reduction of approximately $130 billion). Incidentally, the aforementioned spending cuts are a component of a GOP-sponsored debt-ceiling measure (H.R. 2811) that the House narrowly approved in late April. In addition to discretionary spending reductions, H.R. 2811 would suspend the nation's borrowing limit through March 31, 2024 or until the federal debt increases by another $1.5 trillion, whichever comes first. Moreover, the legislation includes a number of structural changes to social safety net programs, including Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and the Temporary Assistance for Needy Families (TANF) program, among others.

While the H.R. 2811 is a nonstarter in the Democratic-controlled Senate and is the subject of a White House veto threat, the legislation is being used as a bargaining chip in high-level negotiations over the debt limit.

State Budget Update

The Governor is expected to release his proposed May Revision towards the end of the second week of May. A revised State Budget Update will be included as part of the FY2023/24 Supplemental Budget.

Governor Gavin Newsom submitted his initial FY2023/24 State budget proposal to the Legislature on January 10, 2023. The FY2023/24 Governor's Budget proposes spending of $296.9 billion in total State funds, consisting of approximately $223.6 billion from the General Fund, $70.4 billion from special funds, and $2.9 billion from bond funds. It should be noted that the Governor's proposed budget trends downwards from last year's enacted budget. For reference, the FY2022/23 budget spent $307.9 billion in total State funds, consisting of approximately $234.4 billion from the General Fund, $69.1 billion from special funds, and $4.4 billion from bond funds.

Unlike FY2022/23 where there was $37.2 billion in budgetary reserves, this year's January 10th budget proposal projects that California is headed for a $22.5 billion budget shortfall in FY2023/24. However, the Governor stated that through prudent planning and budget resilience built into previous budgets, the State is in its best fiscal position in recent memory to address this slowdown. By using the bulk of the recent surplus to boost the State's budget reserves and pay down prior debts, by focusing on one-time and near-term spending instead of costly long-term obligations, and by tying or "triggering" a handful of new ongoing programs to sufficient revenue availability in FY2024/25, the State does not have to propose the kind of deep reductions to priority programs that marked the budget shortfalls over the past two decades. It will, however, require the State to delay or forego some spending in the near term.

While the Governor's Budget's economic forecast does not project a recession, if economic and revenue conditions deteriorate in the spring, then the Administration may propose withdrawals from reserve accounts, as well as additional program reductions.

The Governor's Budget Plan to close the projected shortfall includes $7.4 billion in funding delays, $5.7 billion in reductions/pullbacks, $4.3 billion in fund shifts, $3.9 billion in trigger reductions, and $1.2 billion in Limited Revenue Generation and Borrowing.

In terms of the $7.4 billion in funding delays, the Budget defers funding for multiple items across FY2021/22 through FY2023/24 and spreads it across the multi-year without reducing the total amount of funding.

Further, for the $5.7 billion in reductions/pullbacks, the Budget reduces spending for various items across FY2021/22 through FY2023/24 and pulls back certain items that were included in the 2022 Budget Act to provide additional budget resilience. Significant items in this category include the $3 billion included in the 2022 Budget as an inflationary adjustment, and a $750 million Unemployment Trust Fund payment in FY2023/24.

The Budget shifts $4.3 billion in certain expenditures in FY2022/23 and FY2023/24 from the General Fund to other funds. These include (1) shifting various California State University (CSU) capital outlay projects to CSU issued debt with the State providing support for the underlying debt service; (2) reverting certain bonds to cash projects from the 2022 Budget Act back to bonds; and (3) shifting certain Zero Emission Vehicle commitments to the Greenhouse Gas Reduction Fund.

The $3.9 billion in trigger reductions would reduce funding for certain items in FY2020/21 through FY2023/24 and places them in a "trigger" that would restore the reductions at the 2024 Governor's Budget if it is determined that sufficient funds will be available to cover certain commitments. These commitments include baseline adjustments, enrollment, caseload, and population adjustments, and constitutional obligations, as well as the cost of funding all of the items included in the trigger. These items are primarily in the areas of Climate and Transportation ($3.1 billion), Housing ($600 million), Parks ($106 million) and Workforce Training ($55 million).

Health, Behavioral Health and Homelessness and Housing

The Governor's proposed budget maintains continued funding to expand full-scope Medi-Cal eligibility to all income-eligible Californians, regardless of immigration status. In addition, the Budget sustains approximately $10 billion in total funds commitment to continue transforming the State's health care delivery system through California Advancing and innovating Medi-Cal (CalAIM).

The proposed budget also includes over $8 billion in total funds across various multiple health and human services departments to expand the continuum of behavioral health treatment and infrastructure capacity and transform the system for providing behavioral health services to children and youth.

The budget proposal includes $350 million in General Fund reductions related to housing programs that were included as part of the 2022 Budget Act. Even with these reductions, funding for these housing programs would remain at approximately 88% of the allocations made in FY2022/23 and FY2023/24 ($2.85 billion). These reductions are included in the trigger, so if there is sufficient General Fund in January 2024, these reductions will be restored. The 2022 Budget Act allocated $10.2 billion for homelessness, in addition to the $7.3 billion provided in 2021, signifying a continued priority in providing investments to support the State's comprehensive homelessness strategy, including resources to provide long-term permanent housing options, services, and supports for individuals experiencing homelessness, or who are at risk of experiencing homelessness. The budget maintains these investments.

The County continues to face financial adversity with respect to the State's forced transition of specialty mental healthcare clients to the County. For decades, the State has contracted for these services but is moving to push this responsibility to the County without requisite funding. Solano representatives are actively engaged on this matter and are seeking legislative assurances for funding and an orderly transition. Cost estimates for this transition are currently about $16.8 million and will grow over time.

Counties have been raising ongoing concerns with the Community Assistance, Recovery & Empowerment (CARE) court proposal, as new funding and needed housing remains a core gap for the population that is intended to be serviced by this new model. Included in this budget proposal is maintaining $88.3 million in General Fund for county start-up costs and State implementation and proposed additional funding for ongoing costs related to the CARE Act.

Wildfires

The 2021 and 2022 Budget Acts committed $2.8 billion over four years to continue strengthening forest and wildfire resilience Statewide. The Governor's budget proposal maintains $2.7 billion (97%) of funding to advance critical investments in forest health and fire prevention to continue to reduce the risk of catastrophic wildfires, as well as resources for fire protection in the State's wildfire response. The proposal also includes $91 million in General Fund reductions across various programs, which are partially offset by a $14 million shift to Proposition 98. If there is sufficient General Fund in January 2024, reductions not otherwise offset by other funds will be restored.

Public Safety

In the last few years, the State provided resources for programs to create safer communities starting with a focus on positive policing strategies, including resources to support peace officer wellness and training. Additionally, the State has substantially invested in programs to reduce organized retail theft, gun violence, illegal drugs, and other crimes. Key investments include $564.4 million in General Fund being invested over three years to bolster local law enforcement efforts to address retail theft and other crimes, and $11 million in one-time General Fund was allocated for the Office of Emergency Services (Cal OES) to facilitate education and training efforts related to gun violence restraining orders, including a public awareness campaign, grants to domestic violence groups to conduct outreach, and provide gun violence restraining order trainings to entities Statewide.

Other funding for Public Safety in the Governor's budget proposal includes total funding of $5.1 billion ($3.2 billion General Fund and $1.9 billion other funds) in FY2023/24 for the Judicial Branch, of which $2.9 billion is provided to support trial court operations. Also related, the 2022 Budget Act included $6.1 million in FY2022/23 and $37.7 million ongoing for the Judicial Branch to implement the CARE Act (Chapter 319, Statutes of 2022). The Budget reduces this funding by $13.9 million General Fund in FY2023/24 and increases funding by $12.9 million in FY2024/25, and $30.9 million ongoing. In total, the Budget provides the Judicial Branch $23.8 million in General Fund in FY2023/24, $50.6 million in FY2024/25, and $68.5 million in FY2025/26 and ongoing for the CARE Act. In addition, the Budget includes $6.1 million in General Fund in FY2023/24, increasing to $31.5 million annually beginning in FY2025/26, to support public defender and legal services organizations who will provide legal counsel to CARE participants.

Water and Drought

The 2021 and 2022 Budget Acts committed $8.7 billion over multiple years to support drought resilience and response designed to help communities and fish and wildlife avoid immediate negative impacts as a result of extreme drought, while continuing to advance projects and programs that prepare the State to be more resilient to future droughts and floods. The budget proposal maintains $8.6 billion or 98% of previously committed funding to minimize the immediate economic and environmental damage from the recent drought and support hundreds of local water projects to prepare for and be more resilient to future droughts. Also included in this budget proposal is $194 million in General Fund reductions across various programs. If there is sufficient General Fund in January 2024, reductions not otherwise delayed will be restored. In addition, the budget also includes new strategic investments to continue supporting the State's drought response, accelerate implementation of the State's water supply strategy, and increase flood preparedness and response.

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 committees will quickly set to work to "close out" the 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 will be in print by June 12 for action on June 15.

ECONOMIC RISKS

Nationally

In February 2023, the Congressional Budget Office (CBO) released "The Budget and Economic Outlook: 2022 to 2033" which projects a federal budget deficit of $1.4 trillion for 2023, and projects an average deficit of $2 trillion per year over the next decade, totaling 6.1% of the Gross Domestic Product (GDP). The CBO is projecting debt will reach 107% of GDP by FY2028. The Federal Reserve raised the "federal funds" benchmark interest rate by 25 basis points to a range of 5% - 5.25% in May 2023 and is now anticipated to stabilize. The Federal Reserve increased interest rates several times over the last twelve months in response to higher than anticipated inflation, which the Federal Reserve aims to maintain at 2%. The average interest rate on a 30-year fixed mortgage reached 6.9% as of May 2023, a significant increase from a long span of historically low interest rates. The Federal Reserve anticipates this will stave off a recession by addressing high inflation. In addition, the 10-year U.S. Treasury Bond totals 3.4% as of May 2023, up from an average of 1.5% in 2021 and 3% in 2022. Supply chain issues due to the aftermath of the COVID-19 pandemic and the ongoing Russian invasion of Ukraine continue to impact the economy. The CBO anticipates economic activity to stagnate, with both rising unemployment and decreasing inflationary rates.

According to the Bureau of Labor Statistics, the unemployment rate as of April 2023 was 3.4%, down from 3.6% in April 2022. The Consumer Price Index for All Urban Consumers (CPI-U) rose 4.9% as of April 2023, from one year ago, with energy decreasing 5.1% and the food index increasing 7.7%; all items less food and energy increasing by 5.5%. Due to these factors, it is anticipated that consumer spending growth will slow. U.S. homebuilders are experiencing order declines and cancellations due to increased interest rates and material costs. Retail markets remain steady and are trending as anticipated, with more consumer demand on the hospitality sector due to increases in travel and leisure activities as the pandemic wanes.

Ongoing challenges also include pending debt ceiling discussions in Congress, and bank failures including Silicon Valley Bank, Signature Bank, and First Republic Bank. In addition, the President signed into law the Inflation Reduction Act ($370 billion – August 16, 2022), which effective January 1, 2023 is intended to offer funding, programs, and incentives to accelerate climate policy toward a cleaner energy economy as well as to provide lower energy costs for families and small businesses, accelerate private investment in clean energy solutions, strengthen supply chains, and create higher paying jobs.

California

Inflation and supply chain issues continue to create uncertainty and instability for the State economy. While the State experienced significant surpluses in recent years, initial reports present a $22.5 billion deficit for FY2023/24. This is due to declining revenues from capital gains and income tax payments resulting from reduced stock prices. Prior to the COVID-19 pandemic, population growth had slowed due in part due to declining birth rates, but the pandemic has accelerated population decline in California which is down 0.4% from July 2021 to July 2022.

Unemployment figures total 2.9% in the San Francisco Metropolitan statistical area and 4.4% in the Sacramento Metropolitan statistical area as compared with the State's unemployment rate of 4.8% as of March 2023. Housing continues to be a challenge Statewide, with high demand facing a slowdown in construction due to labor shortages, high cost for materials, and supply chain issues. The California Association of Realtors is projecting a decline of 7.2% in home sales from 2022 figures, with an 8.8% decline of median home prices.

Another challenge has been tech company layoffs, with Alphabet, Google's parent company, laying off approximately 12,000 workers worldwide. Meta, parent company to Facebook, announced in March 2023 layoffs totaling 21,000 and Salesforce announced another round of cuts totaling approximately 8,000 jobs. In April 2023, Lyft announced a 26% layoff of its workforce, totaling 1,072 workers. In the entertainment economy, Disney announced in February 2023 layoffs totaling 7,000 jobs, and a Writer's Guild of America strike has impacted Hollywood. Retail and banks have also shown signs of weakness with retail chains closing brick and mortar locations, including Nordstrom and Bed Bath & Beyond, and several regional banks closing.

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

FY2023/24 GENERAL FUND RECOMMENDED BUDGET

The FY2023/24 Recommended Budget for the General Fund of $378.5 million is balanced anticipating revenues of $324.9 million, drawdowns from Committed Fund Balances of $16.9 million for Accrued Leave Payoff, Long-term Receivables, Capital Renewal, and use of Fund Balance ($36.7 million).

The Recommended Budget for General Fund reflects revenues of $324.9 million, an increase of $27.9 million excluding reserves when compared to the FY2022/23 Adopted Budget of $297 million. The increase in revenues anticipates a net increase in Tax Revenues totaling $12.7 million, including taxes resulting from increased value in assessed roll, other tax revenue primarily due to improved property values, increases in ABX1 26 Residual Taxes, one-time ARPA-SLFRF funding of $5 million, charges for services, and interest income.

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 FY2022/23 Midyear projections prepared in February 2023 and are provided for comparison only, using the FY2023/24 Recommended Budget as the starting point for the upcoming year. The table reflects projected revenues and expenditures through FY2025/26. 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 FY2023/24 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 FY2023/24 Adopted Budget.

Solano County
General Fund - Fiscal Projection
FY2023/24 Recommended Budget
(in million of dollars)

		Midyear Projection For 6/30/23	Recommended Budget FY2023/24	Projected Budget FY2024/25	Projected Budget FY2025/26
a	**General Fund, Beginning Balance**	$ 63.65	$ 36.75	$ 14.00	$ (19.83)
	TO Reserves:				
	General Reserves				
	Unfunded Employee Leave Payoff				
	Capital Renewal Reserve	5.000	1.987		
	Employer CalPERS Rate Increases	12.617			
	PARS 115 Trust				
b	Subtotal - TO Reserves	17.617	1.987	0.000	0.000
	FROM Reserves:				
	General Reserves				
	LT Receivables		6.000		
	Unfunded Employee Leave Payoff	1.571	1.500	1.500	1.500
	Capital Renewal Reserve		9.375	4.000	4.000
	Employer CalPERS Rate Increases			4.000	4.000
	Encumbrances	1.100			
c	Subtotal - FROM Reserves	2.671	16.875	9.500	9.500
d	**Net Increase (Decrease) in Funding Sources: (b+c)**	(14.946)	14.888	9.500	9.500
e	**TOTAL AVAILABLE FINANCING (a+d)**	48.704	51.635	23.500	(10.332)
f	Operating Expenditures (excluding Contingencies/transfers to Reserves)	318.532	362.488	374.831	385.918
g	Contingencies	14.000	14.000	14.000	14.000
h	**Total Operating Expenditures**	332.532	376.488	388.831	399.918
i	Operating Revenues (excluding transfers from Reserves)	306.575	324.853	331.499	343.200
j	Operating Expenditures (excluding Contingencies/transfers to Reserves)	318.532	362.488	374.831	385.918
k	**Net operating Revenues over (under) Expenditures [known as Operational Deficit] (i-j)**	$ (11.957)	$ (37.635)	$ (43.332)	$ (42.718)*

*General Fund, Beginning Balance in FY2023/24 includes estimated additional savings from County departments as projected at Midyear. FY2024/25 and FY2025/26 is 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 FY2024/25 and beyond.

* Operating Expenditures in FY2023/24 include a $9.375 million General Fund contribution to Accumulated Capital Outlay for capital projects as outlined in the ACO BU1700 Departmental Budget. FY2024/25 and FY2025/26 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 FY2023/24.

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 FY2023/24 Recommended Budget includes the use of General Fund – Committed Fund Balances of $6 million from Long-term Receivables, $9.375 from Capital Renewal, and $1.5 million from Unfunded Employee Leave Payoff.

The significant Revenue Assumptions from the General Revenues budget include:

- An estimated 2.5% increase in assessed values compared to the FY2022/23 corrected assessment roll, resulting in projected increases of $5.4 million in Current Secured Property Taxes and $5.3 million in property tax in-lieu of vehicle license fees (VLF) revenues. Projections in FY2024/25 and FY2025/26 anticipate increases of 4%. Based on the corrected assessment roll as of June 30, 2022, 3,968 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.
- ABX1 26 Taxes are projected to increase by $1.2 million based on projected tax increment revenues.
- Interest Income is expected to increase by $1.4 million as interest yield is anticipated to be better due to higher interest rates and average daily cash balance in the County investment pool.
- Current Unsecured Property Taxes are projected to remain flat in FY2023/24 when compared to the FY2022/23 Adopted Budget. In the subsequent years, Unsecured Property Tax is not anticipated to increase in FY2024/25 and FY2025/26; however, 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 reflects $50.7 million in Proposition 172 funding. FY2023/24 anticipates a 5.6% increase over the FY2022/23 Adopted Budget based on changes in the distribution formula driven by the recovery of taxable sales in other jurisdictions. It is important to note that Proposition 172 is expected to decrease 2.2% from the figures included as part of the Midyear Financial Report. As Proposition 172 funds increase for the County, the Public Safety Fund (Fund 900) departments may require a decrease in County revenue support in the delivery of mandatory services.
- The Recommended Budget for FY2023/24 reflects $74.6 million drawdown in 1991 State – Local Realignment revenues, an increase of $17 million; and $73.1 million in 2011 Realignment funds, an increase of $3.7 million. The draw of Realignment funds is used to maintain programs primarily in Health & Social Services 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.

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 28.74% for Miscellaneous and 36.48% for Safety in FY2023/24.
- Health insurance costs are projected to increase 5% per year based on past rate history for FY2023/24, with 5%-7% annual increases likely in future years.
- The County General Fund Contributions through FY2023/24 are listed below:
  - General Fund support for Public Safety is projected to increase from $149.5 million to $164.4 million; a $14.9 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 $36.4 million to $47.5 million; a $11.1 million increase. The increase is primarily due to increased spending for the administration of Medi-Cal, CalWORKS, and CalFresh resulting from increases in Salaries and Employee Benefits and for the ongoing structural deficit in Family Health Services (FHS) due to insufficient revenue generated by the Primary Care and Dental Clinics. This amount includes one-time ARPA-SLFRF funding of $5 million previously allocated by the Board under the U.S. Treasury Category of Revenue Replacement be used to fund the structural deficit in FHS.
- The FY2023/24 Recommended Budget includes a Contingency appropriation of $14 million.

General Fund Deficit Reduction Strategies for FY2023/24 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. The Board identified five major categories which were discussed at the workshop. The major categories included: economic development, agriculture preservation and development, housing, County Services and workforce development, and regulations and policies. The Board identified high priority items under each category. A formal report indicating next steps is forthcoming.

<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 2023. To accommodate the release, the departmental budgets reflect only the known and approved State and federal programs changes as of April 2023, which will take effect July 1, 2023.

<u>COVID-19 Pandemic</u>: After three years of disruption, the impacts of the pandemic are diminishing. Although focus has now shifted to addressing the fiscal impacts of high inflation and rising interest rates, the County continues to face challenges responding to those disproportionately impacted by the economic downturn. This has put stress on the County's safety net programs in Health & Social Services. In addition, as County staff return to a "new normal", departments have re-instated travel for conferences and in-person trainings as well as either implemented or begun to explore technology investments that reduce in-person contact and maximize operational efficiencies. This shift is likely to impact the County budget and staff will need to continue to monitor resulting fiscal impacts and provide necessary revisions when necessary or feasible.

<u>Affordable Care Act (ACA)</u>: The federal Affordable Care Act (ACA) 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 section 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.

<u>In-Home Supportive Services (IHSS)</u>: 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 depending IHSS category and is approximately 65% State and 35% County. IHSS PA and SEIU 2015 completed negotiations in September 2021 and provider wages were increased locally by 70 cents per hour in December 2021, and the State minimum wage increased wages by one dollar in January 2023 to $15.50/hour. The Solano

IHSS wage is fixed at $16.20 per hour through June 2024. IHSS Providers in Solano 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.

Family Health Services - Clinics: Family Health Services (FHS) operates fixed-site Federally Qualified Health Center (FQHC) medical and dental clinics in Fairfield, Vacaville, and Vallejo. The FHS clinics continue to experience operating losses due to insufficient FQHC revenues, partly caused by circumstances beyond the clinics' control such as reimbursement rates not keeping up with rising costs to operate the clinics, and unanticipated leaves of absence/provider vacancies. Previously, H&SS redirected 1991 Public Health Realignment to cover 100% of the FHS structural deficit (i.e. funding gap). The continued use of 1991 Public Health Realignment in FHS negatively impacts Public Health's ability to sustain and/or expand services, and core Public Health functions that are primarily funded with 1991 Public Health Realignment. As a result, the FY2023/24 Recommended Budget includes the use of one-time ARPA-SLFRF funding of $4.5 million previously allocated by the Board under the U.S. Treasury Category of Revenue Replacement be used to fund the structural deficit.

Public Health- COVID-19

It is anticipated that the impacts of the COVID-19 pandemic will continue to abate and likely result in reduced needs for redirection of Public Health resources to COVID-19 activities. Supplemental COVID-19 funding for Epidemiology and Laboratory Capacity (ELC) Enhancing Detection Expansion expires in July 2024 and other one-time vaccination related revenues expire in June 2024; however, these funds remain available in the coming fiscal year to offset costs related to remaining redirections and to provide some temporary relief on the division's need to over-utilize 1991 Public Health Realignment to fund its operations. Public Health continues to monitor vacant positions and move positions between programs within the division to maximize funding where possible.

In 2022, the State Legislature and the Governor approved a budget proposal to provide new ongoing infrastructure funding for local health departments. Solano Public Health will receive an annual allocation of $2,060,478 in Future of Public Health (FoPH) funding to support and strengthen the public health infrastructure to respond to current and future public health emergencies. These funds will help sustain some of the work funded through one-time COVID-19 funding and allow Public Health to resume its focus on prevention programs.

California Advancing and Innovating in Medi-Cal (CalAIM): The California Department of Health Care Services (DHCS) continues to implement components of California Advancing and Innovating Medi-Cal initiative (CalAIM), the negotiated federal/State plan approved and launched in January 2021. CalAIM includes major reforms specific to Behavioral Health services that will change the service model and impact operating budgets and the ultimate impacts remain unknown.

Payment reform, included under CalAIM and scheduled for full implementation in July 2023, will significantly change Medi-Cal reimbursement rates, billing and fiscal operations, and contractual obligations. Due to significant changes with payment reform and the fiscal risk shifted to counties, counties continue to assess the impact of DHCS provided rates on county operations and continue to seek guidance on appropriate codes. Guidance from DHCS has been delayed and unclear at times on key elements so counties remain concerned about the fiscal impacts on Medi-Cal reimbursement after implementation.

Included in CalAIM is a requirement to standardize specialty mental health services for all counties, which means that current Kaiser Medi-Cal specialty mental health services (SMHS) clients carved-out ("served by Kaiser versus County Behavioral Health") from Solano must be transitioned back to the County caseload. Currently the fiscal and program responsibilities occur outside of the County directly from the State to Kaiser. The State's expectation is that the County will become responsible for an estimated 2,091 current Kaiser SMHS clients at an estimated cost of $16.8 million, most recently scheduled no earlier than July 2023, but currently delayed to a date uncertain. The County is continuing to advocate for sufficient funding and time to absorb this new, significant responsibility and is seeking information about the potential clients to start transition planning with Kaiser, hiring and expanding the contractor network, as well as planning for an expansion to the current array of services based on client level of care needs.

Community Assistance, Recovery and Empowerment (CARE) Court: CARE Court, under SB 1338 (Chapter 319, Statutes of 2022), is a new civil court process designed to connect individuals with certain mental health diagnoses over a one-to-two-year process with county behavioral health services under the oversight of the courts. Concerns continue to be highlighted around civil rights, clarity for eligibility, roles between county behavioral health services and courts, fines and penalties imposed by the court, and lack of housing stock to meet the requirements of the client plan. Solano Behavioral Health is working toward implementation by December 1, 2024 and has received $250,000 in planning funds; however, no additional funds have been identified for ongoing treatment and the assumption is that CARE Court clients are already a county responsibility and should be absorbed into the network.

Mental Health Services Act (MHSA): Governor Newsom is proposing a modernization of California's Behavioral Health System that would significantly change MHSA components and expenditure requirements. While Solano Behavioral Health supports any new funding, there is concern that funding may be reduced in current and equally important MHSA investments in prevention and early intervention. The Behavioral Health Expansion and Modernization Proposal is a three-pronged approach that will focus on creating: a general obligation bond for homeless veterans housing and new behavioral health beds and services; amending the MHSA to create a permanent source of housing funding to serve people with acute behavioral health issues, focusing on Full-Service Partnerships for the most seriously ill, and allowing MHSA to be used for people with substance use disorders alone; and placing reforms on the 2024 ballot, exactly 20 years from the MHSA's passage in 2004, include a New Housing Component requiring counties to dedicate 30% of funding to pay for housing and other community-based residential solutions to provide an ongoing source of funding for new and existing housing and residential settings that are responsive to the diverse needs across the State.

2011 Public Safety Realignment/AB 109 Funding: The Recommended Budget reflects the County's share of the estimated total AB 109 base and growth funding allocations statewide. The budget recommendation by the Solano Community Corrections Partnership (CCP) includes an estimated allocation of $18.7 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.

Proposition 172 Public Safety Funding: Proposition 172 is a key revenue source for our County Public Safety Departments and is based on ½ cent statewide sales tax funding for Public Safety Services. Proposition 172 is projected at $50.7 million in the Recommended Budget, representing a reduction from revenues projected at FY2022/23 Midyear. The County is anticipating a decline in Proposition 172 revenue based on changes in the distribution formula, which reflects the recovery of taxable sales in other jurisdictions that were negatively impacted by COVID-19. The County's share of Proposition 172 revenues was not as negatively impacted by COVID-19, and therefore, while other jurisdictions recover, the County's share is reduced. 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.

Juvenile Justice SB 823 - 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. The Department 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.

Property Tax Appeals/Prop 8 Values: As of May 10, 2023, there are 371 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 $2.5 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, 2022, 3,968 of the County's 152,320 assessor 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 FY2023/24 despite PG&E's efforts to refine PSPS boundaries and 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 through the Emergency Operations Center (EOC) should an emergency occur.

American Rescue Plan Act (ARPA) – The American Rescue Plan Act of 2021 (H.R. 1319) was signed into law on March 11, 2021. Solano County received a one-time direct federal funding allocation under the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program of $86,949,405 for direct relief in the continued response and recovery to the COVID-19 pandemic. In FY2022/23, following a public outreach and community engagement process, the Board completed its initial allocation of ARPA-SLFRF funds. Over the next year, obligation and expenditure of the funds will be closely monitored to ensure compliance with the U.S. Treasury deadlines and staff will return to the Board with updates and reallocation of funds if necessary.

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 $44.3 million as reflected in the FY2022/23 Midyear projection. If the FY2022/23 Midyear projection for Fund Balance is not met, or there is an unanticipated shortfall in the FY2022/23 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, 2023 exceeds the Midyear projections for FY2022/23, 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 FY2023/24 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 $15 million to Deferred Maintenance/Capital Renewal Reserves.
2. Any amount up to $15 million to the CalPERS Reserves and/or 115 Trust.
3. Any amount up to $5 million to General Fund Reserves.