COUNTY ADMINISTRATOR'S BUDGET MESSAGE

DATE: May 24, 2024

TO: Board of Supervisors

FROM: Bill Emlen, County Administrator

SUBJECT: FY2024/25 Recommended Budget

Staff recommends that the Board of Supervisors conduct Budget Hearings beginning at 9:00 a.m. on June 20, 2024 and take action to adopt the Budget at the conclusion of the hearings. Necessary actions initiate approval of the FY2024/25 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 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 challenging economic environment. The FY2024/25 Recommended Budget reflects our steadfast commitment to weigh increasing labor costs and service demands while continuing 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.

For the second year in a row, staff is recommending that one-time American Rescue Plan Act (ARPA) Coronavirus State and Local Fiscal Recovery Funds (SLFRF) funding of $5 million (for a two-year total of $10 million) already designated by the Board under the U.S. Treasury Category of Revenue Replacement be used to fund a structural deficit in Health and Social Services' (H&SS) Family Health Services Division. H&SS, in coordination with the County Administrator's Office, is accelerating the evaluation of clinic operations to address the structural funding deficit challenge as one-time funds will not be available in future years.

The FY2024/25 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) FY2024/25 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

FY2024/25

FUND NAME	FY2023/24 ADOPTED BUDGET	FY2024/25 RECOMMENDED	CHANGE	% CHANGE
GENERAL FUND	$ 393,859,510	$ 395,964,036	$ 2,104,526	0.5%
SPECIAL REVENUE FUNDS	$ 1,115,965,753	$ 1,131,525,739	$ 15,559,986	1.4%
CAPITAL PROJECT FUNDS	$ 45,996,143	$ 30,402,386	$ (15,593,757)	(33.9%)
DEBT SERVICE FUNDS	$ 21,122,334	$ 27,457,324	$ 6,334,990	30.0%
TOTAL GOVERNMENTAL FUNDS	**$ 1,576,943,740**	**$ 1,585,349,485**	**$ 8,405,745**	**0.5%**
BUDGETED POSITIONS	3,242.33	3,278.70	36.38	1.1%

The FY2024/25 Recommended Budget for all Governmental Funds is balanced and totals $1,585,349,485 (*Schedules 1 and 2*). The Recommended Budget represents an increase of $8.4 million or 0.5% when compared to the FY2023/24 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 $15.6 million in the Special Revenue Funds, primarily due to increases in Public Safety, Health and Social Services, American Rescue Plan Act (ARPA), and other funds. The Capital Project Funds decreased by $15.6 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 $2.1 million is primarily due to increases in Tax revenues, Charges for Services, and interest income as interest yield is anticipated to be better due to higher interest rates and average daily cash balance in the County investment pool. 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 wage increases totaling $5.3 million and increased General Fund contributions to Public Safety and Health and Social Services when compared to the FY2023/24 Adopted Budget. It should be noted that the change in General Fund for FY2024/25 reflects an increase of only 0.3% when compared to the FY2023/24 Adopted Budget primarily due to the continued use of one-time ARPA-SLFRF funding designated by the Board under the U.S. Treasury Category of Revenue Replacement to fund a structural deficit in Health and Social Services' (H&SS) Family Health Services Division and a decrease in use of General Fund – Capital Renewal Reserve of $10.9 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 an increase of $6.3 million when compared to the FY2023/24 Adopted Budget due to anticipated pension contributions towards Pension Obligation Fund debt payments. Overall, the FY2024/25 Recommended Budget for All Governmental Funds increased by 0.5% when compared to the FY2023/24 Adopted Budget.

The FY2024/25 Recommended Budget uses the March 2024 Midyear Financial Report projected Fund Balances for 6/30/2024 and draws down $9.9 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. FY2024/25 uses some draws from designated reserves for accrued leave, capital renewal, and CalPERS rate increases to fund one-time costs, liabilities for employee accrued leave payoff and pension costs, and costs for the major maintenance and capital improvements of County facilities.

The Recommended Budget reflects a workforce of 3,278.70 FTE positions, excluding extra-help positions and makes assumptions about timing for filling existing vacancies. Budgeted positions reflect a net increase of 36.38 FTE compared to the FY2023/24 Adopted Budget. This increase is the result of a net 14.38 FTE increase in positions approved by the Board during the fiscal year, and a net 22.0 FTE increase (including expiring Limited-Term positions) included in the FY2024/25 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 FY2024/25 Recommended Budget.

FINANCIAL SUMMARY

The Governmental Funds Spending Plan by Function graph portrays a total of $1.585 billion. The graph indicates the percent of the total for each functional area required within the Governmental Funds.

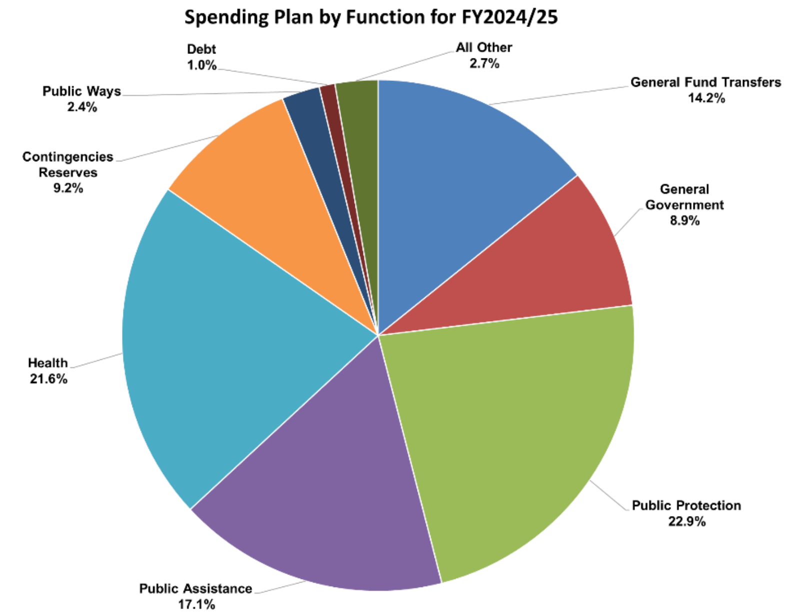
Public Protection represents the single largest category of County appropriations at 22.9% in the FY2024/25 Budget, which is an increase from 21.5% in the FY2023/24 Adopted Budget. Public Protection spending is projected to increase $24.4 million in FY2024/25 with the largest increases being in wages resulting the three-year labor contracts approved in FY2022/23, inmate costs, insurance costs, and Countywide Administrative Overhead charges.

Public Assistance, at 17.1%, and Health, at 21.6%, represent the social safety net function of County government, which together represent a decrease from FY2024/25. Public Assistance spending is projected to decrease by $34.1 million in FY2024/25, primarily due to the County's use of one-time ARPA-SLFRF to fund ARPA projects. Most ARPA projects are multi-year projects which carry funds across fiscal years to facilitate the accounting and management of Board approved ARPA projects and therefore, are not included as part of the FY2024/25 Recommended Budget. Health spending is projected to increase $27.1 million in FY2024/25, primarily due to increases in Behavioral Health programs caused primarily by State mandates and for costs to renovate the First 5 Vallejo ELC (offset by State and local funding sources).

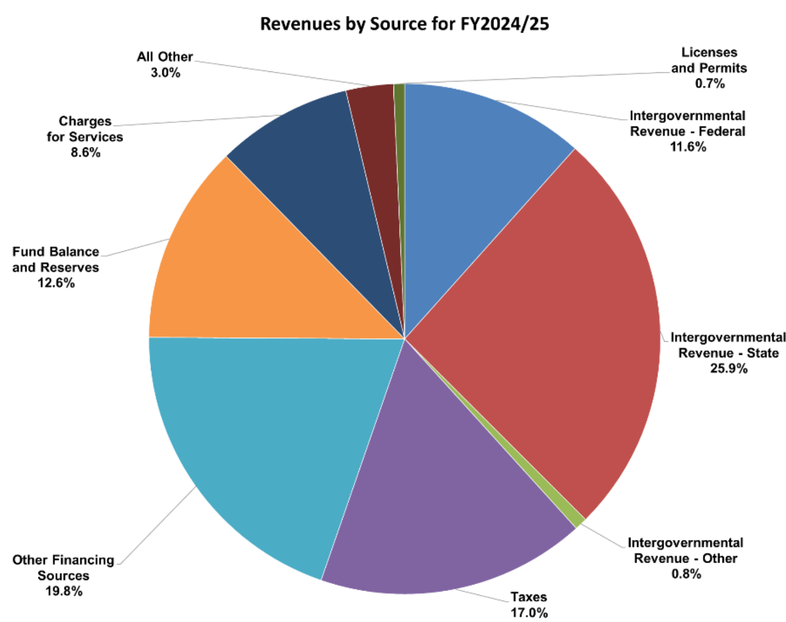
General Fund Transfers represent a 14.2% share of the FY2024/25 Recommended Budget, reflecting the increases in Public Safety costs, social services programs, and costs for capital improvements.

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 37.5% 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 $28.9 million primarily due to the County's use of one-time ARPA-SLFRF to fund ARPA projects. Most ARPA projects are multi-year projects which carry funds across fiscal years to facilitate the accounting and management of Board approved ARPA projects and therefore, are not included as part of the FY2024/25 Recommended Budget. Taxes represent 17.0% of the FY2024/25 revenue projections, an increase from 16.3% from FY2023/24.

Other Financing Sources, which includes the transfer of funding between government budgets, represents 19.8%



GOVERNMENTAL FUNDS
Total: $1,585,349,485



share of the FY2024/25 projected revenues, which is down from 20.0% share in FY2023/24. Fund balance and reserves represents an 12.6% share of the FY2024/25 revenues, a slight decrease from FY2023/24.

The General Fund Spending Plan (*Fund 001*) graph portrays a total of $396 million. The Public Safety category represents the single largest category of expenditures at 43.9% of the FY2024/25 Spending Plan, which is an increase from a 41.7% proportional share in FY2023/24. 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 33.2% share in FY2024/25, which is an increase from a 31.0% proportional share in FY2023/24. Functions listed under this category include Agricultural Commissioner, Resource Management, Registrar of Voters (ROV), General Government, courts Maintenance of Effort (MOE), and other MOEs.

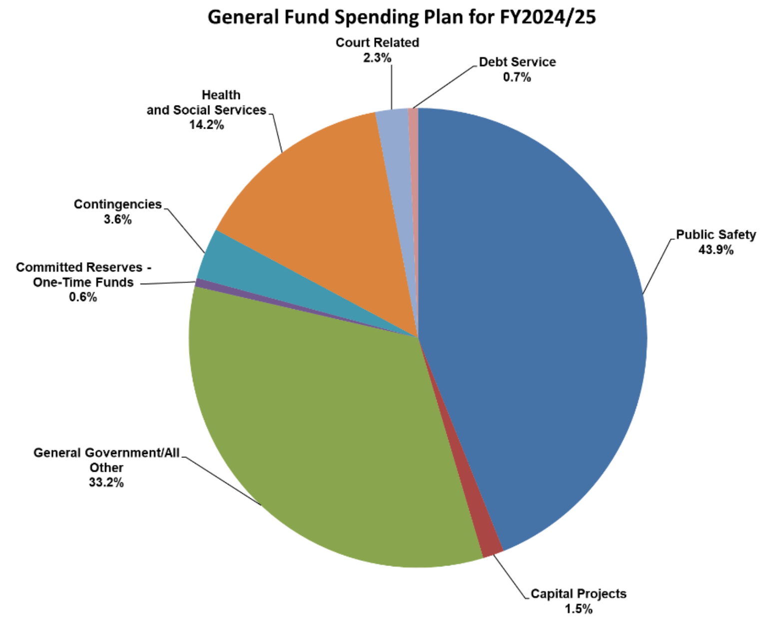
Health & Social Services is the third largest category of General Fund use at 14.2% of the total, which is up from a 12.1% share in FY2023/24. The General Fund contribution to H&SS and IHSS is projected to increase by $8.7 million in FY2024/25.

The FY2024/25 Recommended Budget includes the allocation of $2.4 million in one-time funds to Committed Fund Balances to address future capital renewal costs.

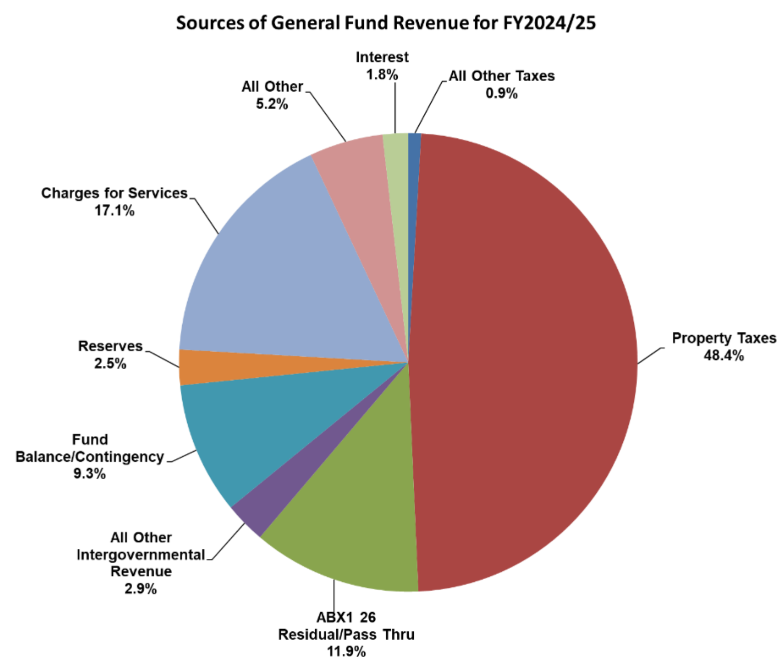
The Sources of General Fund Revenue graph provides information concerning General Fund financing for County operations. General Fund revenue is projected to increase by $24.4 million from the FY2023/24 Adopted Budget, primarily due to increases in property taxes, ABX1 26 taxes, interest income, and Charges for Services.

Revenues derived from property values account for over half of General Fund revenues, with Property Taxes at 48.4% and ABX1 26 residual taxes and passthrough at 11.9%. 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 $12.1 million in these property related revenues when compared to the FY2023/24 Adopted Budget.

The second largest source of revenue is Charges for Services at 17.1%, 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 9.3%. The General Fund projected Fund Balance at the end of FY2023/24 becomes a means of financing for the FY2024/25 Recommended Budget.



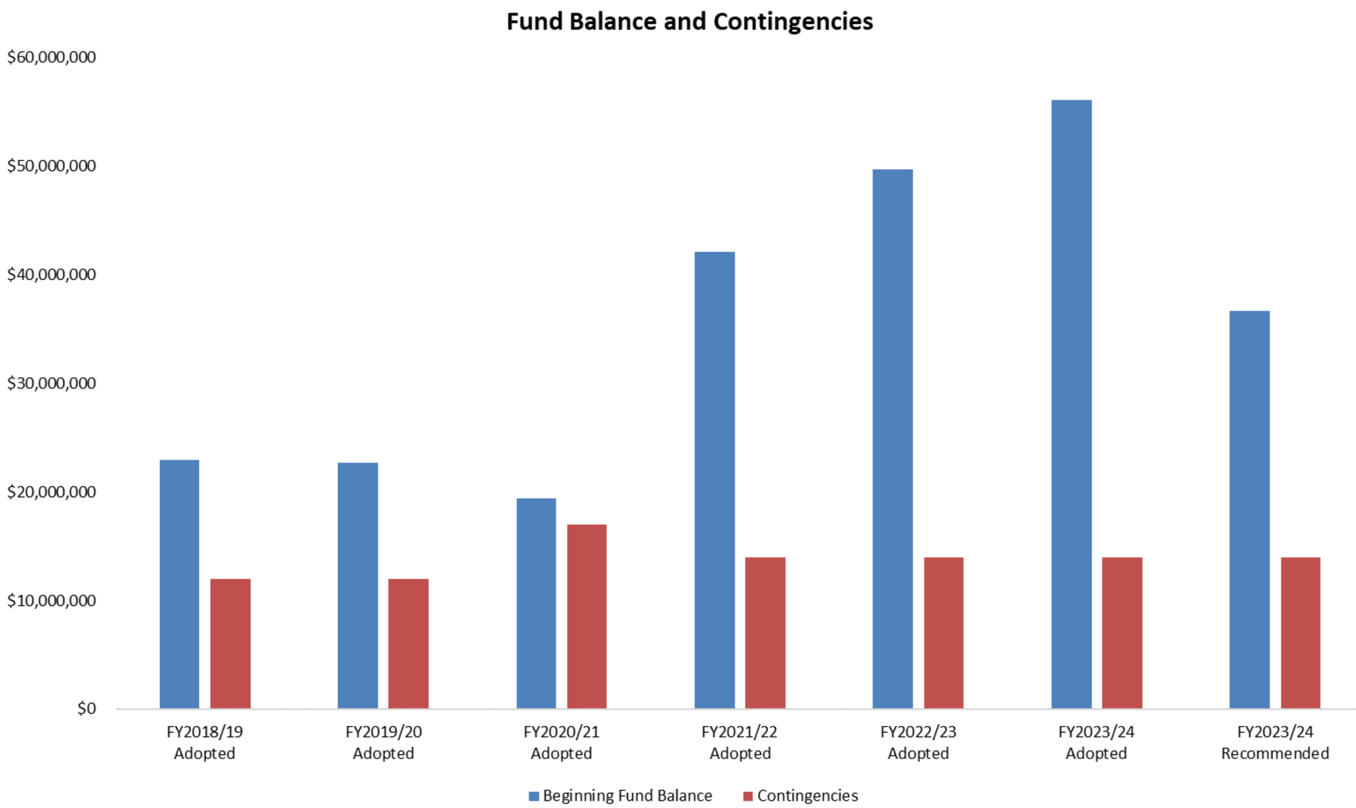
GENERAL FUND
Total: $395,964,036



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.

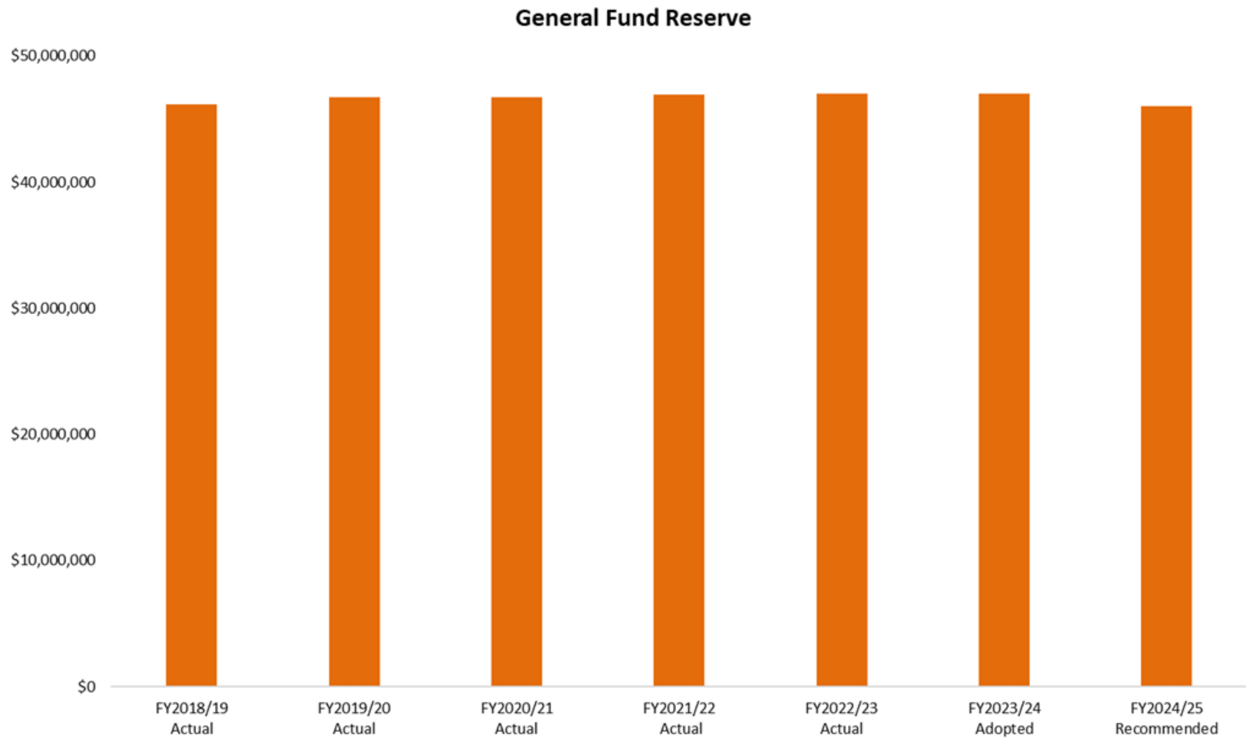
In good economic times the Board has consciously set monies aside to fund and finance some of the General Fund obligations, liabilities, and responsibilities. The strong fiscal policies established in the 1990's and maintained by the Board and the execution of those policies by the County departments 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 on June 30, 2024 is projected at $36.7 million and is based on the FY2023/24 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 FY2024/25 is to maintain a $14 million contingency which is approximately 3.5% of Proposed General Fund Expenditures. This recommended contingency amount is below what is established in the policy but is consistent with levels established in recently adopted budgets.

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 FY2024/25 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:

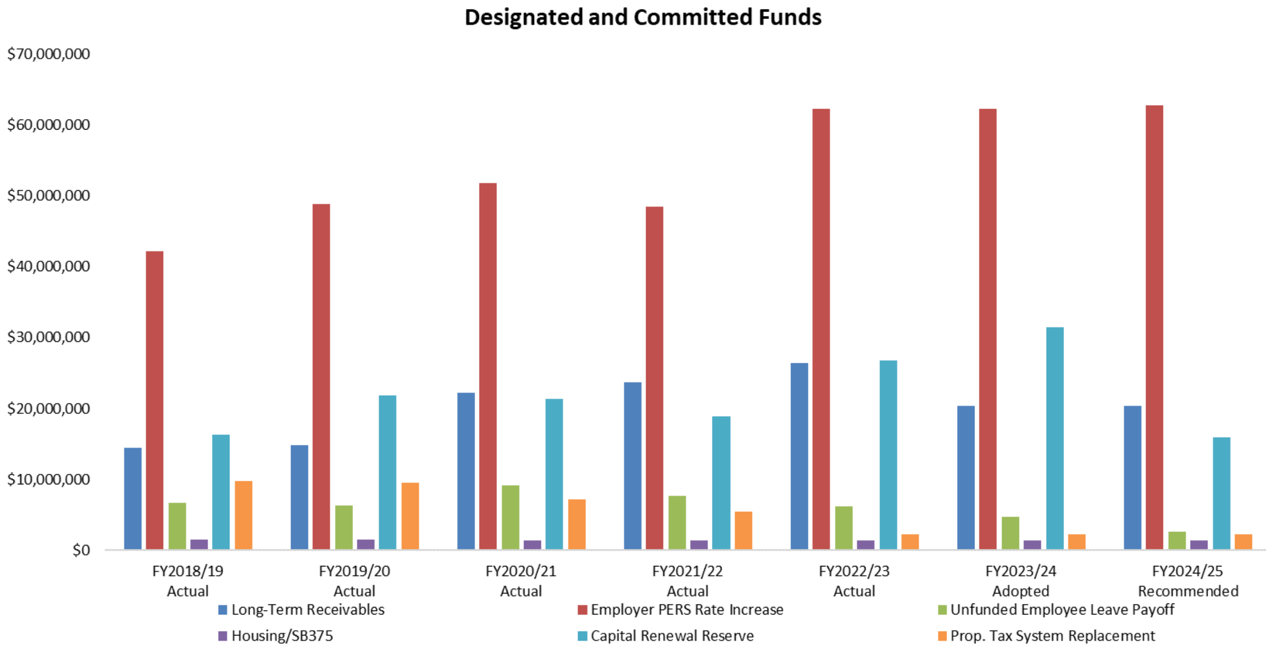
- When the County faces economic recession / depression and the County must take budget action.
- When the County is impacted by a natural disaster or any other emergency.
- When the County experiences unexpected declines in revenues and/or when unpredicted large one-time expenditures arise.

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 FY2024/25 Recommended Budget for the General Fund - General Reserve is projected at $48 million. Based on Board policy, the reserve target is 10% of the County's total budget, excluding interfund transfers, which equates to $127.5 million in FY2024/25. The current County General Reserve is $48 million, which is 37.6% of the target goal. It is similar in dollar value to levels established since FY2018/19 but is a smaller percentage of the General Fund Budget.



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, 2023, (most recent actuarial report), the County's unfunded actuarial accrued liability for both the Miscellaneous Plan and Safety Plan is $749 million (71% Funded Ratio). This figure includes the former Court employees and Solano County Fair Association employees.

In FY2017/18, FY2018/19, FY2021/22, and FY2022/23 the Board of Supervisors authorized additional payments of $6.6 million, $6 million, $8.6 million, and $5.6 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. It is anticipated that an additional payment of $8.2 million will be made in FY2023/24.

The FY2024/25 Recommended Budget for the Employer PERS Rate increases includes both the value of the IRS 115 Trust at $33.5 million and the Reserve for Employer PERS Rate Increase at $29.4 million for a total reserve of $62.9 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). A Facilities Condition Assessment was conducted in FY2023/24 and is currently being analyzed by County Staff. An updated Facilities Condition Assessment Report will be presented to the in 2024. 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 endeavors to set aside a minimum of $2.8 million, if feasible and when possible, additional available one-time funding to address capital facility needs.

On March 12, 2024, the General Services Department presented to the Board a status update on capital projects included in the FY2024/25 Recommended Budget. Based on a preliminary prioritization of projects under consideration, the department provided recommendations for funding specific projects.

FY2024/25 Recommended Budget for Capital Renewal Reserve is $15.9 million and reflects a draw of $6.0 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 a loan to the project, repaid over time once the project is completed. The FY2024/25 Recommended Budget reflects a Property Tax System Replacement reserve remaining balance of $2.3 million as of May 10, 2024. It is anticipated that at the end of FY2023/24 the reserve balance will be approximately $717,764. In March 2023, the County went "live" on the new property tax system: County Assessment and Taxation System (CATS). The remaining reserve balance will be utilized in FY2024/25 to continue post go-live activities.

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 loan repayment schedule 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 FY2024/25. The reserve has a current balance of $4.7 million. It is recommended that the Board utilize $2.0 million of this balance to fund Employee Accrued Leave Payoff in FY2024/25. The FY2024/25 Recommended Budget for the Unfunded Employee Leave Payoff reserve is reduced to $2.7 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. The FY2024/25 Recommended Budget for long-term receivables is $20.4 million.

Housing/SB 375

Effective February 1, 2012, the redevelopment agencies (RDA) were dissolved. During the existence of the RDA, a percentage of the redevelopment funding was required to be used to meet the housing needs of low/moderate-income residents. As a result of the dissolution of the redevelopment agencies, this restricted source of funding was no longer available to address housing needs.

As of February 1, 2012, any unspent housing funds in RDAs were redistributed to the local taxing agencies as one-time revenues. During this time, the State passed SB 375 (Chapter 728, Statutes of 2008) which directed the California Air Resources Board to set regional targets for reducing greenhouse gas emissions. SB 375 included requirements for coordinating regional housing needs allocation with the regional transportation process. In FY2013/14, the Board approved the County Administrator's recommendation to establish the Housing / SB 375 reserve using $2 million of these one-time housing set-aside funds for SB 375 implementation and/or to address temporary and long-term housing needs for children, families, special needs clients, and older, indigent, and disabled adults. 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 FY2024/25 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 FY2024/25 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 March 2024, Congress approved, and President Biden signed into law two separate fiscal year (FFY) 2024 appropriations measures (P.L. 118-42 and P.L.118-47). Combined, the budget package provides funding for all federal departments and agencies through September 30, 2024.

The final budget is consistent with appropriations levels announced in early January and reflects funding targets that were negotiated as part of the *Fiscal Responsibility Act* (P.L. 118-5). Although the final budget is consistent with FFY2023, Congress imposed cuts across a number of individual departments, agencies, and programs while others received significant increases. The final budget provides $825 billion or approximately a 3.4% increase in funding for discretionary defense spending.

The final budget also appropriates funding for thousands of local community projects, also known as earmarks. The final budget includes funding for three of the County's priority projects:

- $637,195 for the County's Emergency Operations and Emergency Communications Centers
- $500,000 for the Vallejo Early Learning Center; and,
- $150,000 to be shared between Solano and two other Delta counties to develop Project Partnership Agreements with the U.S. Army Corps of Engineers for the planning and development of key Delta water infrastructure projects.

Congress is currently developing the appropriations bills that will comprise the FFY2025 budget. It is anticipated that Congress will not approve a new budget by the October 1 deadline. Therefore, to avoid an election-year government shutdown, Congress will likely need to approve a short-term budget patch (Continuing Resolution) to maintain federal funds for departments and agencies.

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 2024. While the State experienced significant surpluses in recent years, updated reporting from the Legislative Analyst's Office project a $73 billion deficit for FY2024/25. A revised State Budget Update will be included as part of the FY2024/25 Supplemental Budget.

Early Action (April 2024)

Based on the initial proposed State budget, in early April the Legislature adopted and began implementing what is known as "Early Action" to close the growing gap between planned expenditures and revenue shortfalls. The Early Action package totals approximately $17 billion and contains a combination of $3.6 billion in reductions primarily to one-time funding, $5.2 billion in revenue and borrowing, $5.2 billion in delays and deferrals, and $3.4 billion in shifts of costs from the general fund to other State funds. Details of Early Action contains reductions of $3.6 billion in areas including: School Facility Aid Program, CalWORKs Single Allocation Partial Reversion, watershed climate resilience, and the Climate Innovation Program. Also included are delays totaling $3.1 billion in: Formula Transit and Intercity Rail Capital Program, Preschool, TK and Full-Day Kindergarten Facilities Grant Program, Behavioral Health Bridge Housing and Continuum Infrastructure Programs, and Health and Human Services Innovator. Revenue/Borrowing totaling $5.2 billion impacts the Managed Care Organization Tax and the Medi-Cal Drug Rebate Special Fund Reserve. Fund shifts of $3.4 billion impact the Greenhouse Gas Reduction Fund and Retirement Contribution Reductions Using Proposition 2.

State Revenue Trends

Based on preliminary tax agency data, California net personal income tax (PIT) collections in April were $137 million (0.8%) below the administration's monthly forecast, while net corporation tax (CT) collections were $554 million (11.7%) below the monthly forecast. Due primarily to substantial PIT shortfalls in December 2023 and January 2024, FY2023/24 year-to-date income tax collections (net PIT and CT combined) are now $5.5 billion (4.1%) below the Governor's Budget forecast through the end of April. As of the end of March, general fund sales taxes were an additional $1 billion (3.8%) below the fiscal year-to-date forecast.

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 will be in print by June 12 for action on June 15.

The Early Action package is not anticipated to have a significant impact on the County's budget; however, impacts resulting from the Governor's May Revision are still unknown at this time. A revised State Budget Update will be included as part of the FY2024/25 Supplemental Budget.

ECONOMIC RISKS

Nationally

In February 2024, the Congressional Budget Office (CBO) released "The Budget and Economic Outlook: 2024 to 2034" which projects a federal budget deficit of $1.6 trillion for 2024, $1.8 trillion in 2025, and $2.6 trillion in 2034, and totals 5.6% of the Gross Domestic Product (GDP). The CBO is projecting debt held by the public will reach 116% of GDP by the end of FY2034. The Federal Reserve maintained the "federal funds" benchmark interest rate between 5.25% - 5.5% in May 2024 and it is anticipated this may decrease by 0.75% by year-end. It was initially anticipated rates would decrease at a faster rate; however, due to job creation and inflation figures, the Federal Reserve is taking a more conservative approach. The U.S. Bureau of Labor Statistics reported an annual inflation rate totaling 3.5% as of March 2024, while the Federal Reserve aims to maintain an inflation rate of 2%. The average interest rate on a 30-year fixed mortgage reached 6.8% as of May 2024, a significant increase from a long span of historically low interest rates. In addition, the 10-year U.S. Treasury Bond totals 4.6% as of February 2024, up from an average of 4% in 2023.

According to the Bureau of Labor Statistics, the unemployment rate as of April 2024 was 3.9%, up from 3.4% in April 2023. The Consumer Price Index for All Urban Consumers (CPI-U) rose 3.5% as of March 2024, from one year ago, with energy increasing 2.1%, the food index increasing 2.2%, all items less food and energy increasing by 3.8%. U.S. homebuilders are continuing to face challenges due to elevated interest rates while retail markets remain steady despite higher interest rates.

California

While the State experienced significant surpluses in recent years, updated reporting from the Legislative Analyst's Office present a $73 billion deficit for FY2024/25. Several options are being considered to address this deficit, including reducing one time and temporary spending. California relies in part on high-income taxpayer stock-based compensation revenues, which creates volatile swings in revenues from year to year. Coupled with inflation, there continues to be uncertainty and instability for the State economy.

Unemployment figures total 3.7% in the San Francisco Metropolitan statistical area and 4.9% in the Sacramento Metropolitan statistical area as compared with the State's unemployment rate of 5.3%, as of March 2024. Housing continues to be a challenge Statewide, with high demand facing a slowdown in construction due to high labor and material costs, and high interest rates. The California Association of Realtors is projecting a decline of 4.4% in home sales from March 2023 figures, with a 7.7% increase in median home prices.

Another challenge has been the labor market, with the U.S. Bureau of Labor Statistics reporting that California has a weaker labor market in areas such as technology and retail, when compared to the rest of the country. California anticipates tech layoffs, which are anticipated to right size companies after a period of rapid growth, while it anticipates retail layoffs due to companies adapting to changes in consumer behavior.

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

FY2024/25 GENERAL FUND RECOMMENDED BUDGET

The FY2024/25 Recommended Budget for the General Fund of $396 million is balanced anticipating revenues of $349.4 million, drawdowns from Committed Fund Balances of $9.9 million from Employer CalPERS Rate Increases, Accrued Leave Payoffs, Capital Renewal, and use of Fund Balance ($36.7 million).

The Recommended Budget for General Fund reflects revenues of $349.4 million, an increase of $24.4 million excluding reserves when compared to the FY2023/24 Adopted Budget of $325 million. The increase in revenues anticipates a net increase in Tax Revenues totaling $12.5 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, 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 FY2023/24 Midyear projections prepared in February 2024 and are provided for comparison only, using the FY2024/25 Recommended Budget as the starting point for the upcoming year. The table reflects projected revenues and expenditures through FY2026/27. 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 FY2024/25 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 FY2024/25 Adopted Budget.

Solano County
General Fund - Fiscal Projection
FY2024/25 Recommended Budget
(in million of dollars)

		Midyear Projection For 6/30/24	Recommended Budget FY2024/25	Projected Budget FY2025/26	Projected Budget FY2026/27
a	**General Fund, Beginning Balance**	$ 50.47	$ 36.65	$ 14.00	$ (10.89)
	TO Reserves:				
	General Reserves				
	Unfunded Employee Leave Payoff				
	Capital Renewal Reserve	15.662	2.365		
	Employer CalPERS Rate Increases				
	PARS 115 Trust				
	Assigned - GVOS	0.858	0.062		
b	Subtotal - TO Reserves	16.520	2.427	0.000	0.000
	FROM Reserves:				
	General Reserves				
	LT Receivables	6.000			
	Unfunded Employee Leave Payoff	1.500	2.000	1.500	1.500
	Capital Renewal Reserve	22.781	5.956	4.000	4.000
	Employer CalPERS Rate Increases		2.000		
	Encumbrances	1.080			
c	Subtotal - FROM Reserves	31.361	9.956	5.500	5.500
d	**Net Increase (Decrease) in Funding Sources: (b+c)**	14.841	7.529	5.500	5.500
e	**TOTAL AVAILABLE FINANCING (a+d)**	65.307	44.183	19.500	(5.390)
f	Operating Expenditures (excluding Contingencies/transfers to Reserves)	365.358	379.537	395.081	406.573
g	Contingencies	14.000	14.000	14.000	14.000
h	**Total Operating Expenditures**	379.358	393.537	409.081	420.573
i	Operating Revenues (excluding transfers from Reserves)	334.705	349.355	364.691	375.387
j	Operating Expenditures (excluding Contingencies/transfers to Reserves)	365.358	379.537	395.081	406.573
k	**Net operating Revenues over (under) Expenditures [known as Operational Deficit] (i-j)**	$ (30.653)	$ (30.182)	$ (30.390)	$ (31.186)

* *General Fund, Beginning Balance in FY2024/25 includes estimated additional savings from County departments as projected at Midyear. FY2025/26 and FY2026/27 are anticipated to be higher than shown in chart above based on historical trends in savings realized in departments. Contributions to Reserves are not included in FY2025/26 and beyond.

* Operating Expenditures in FY2024/25 include a $2.365 million General Fund contribution to Accumulated Capital Outlay for capital projects as outlined in the ACO BU 1700 Departmental Budget. FY2025/26 and FY2026/27 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 FY2024/25.

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 FY2024/25 Recommended Budget includes the use of General Fund – Committed Fund Balances of $2.0 million from CalPERS Rate Reserve, $5.956 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 FY2023/24 corrected assessment roll, resulting in projected increases of $7.4 million in Current Secured Property Taxes and $2.2 million in property tax in-lieu of vehicle license fees

(VLF) revenues. Projections in FY2025/26 and FY2026/27 anticipate increases of 4%. Based on the corrected assessment roll as of June 30, 2023, 4,487 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 $2.7 million based on projected tax increment revenues.
- Interest Income is expected to increase by $3.5 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 increase $200,000 when compared to the FY2023/24 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 $50.9 million in Proposition 172 funding. FY2024/25 anticipates a 0.3% increase over the FY2023/24 Adopted Budget based on changes in the distribution formula as the State's economy has been impacted by inflationary measures and a potential recession. 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 FY2024/25 Recommended Budget reflects $79.0 million drawdown in 1991 State – Local Realignment revenues, an increase of $3.4 million; and $107.0 million in 2011 Realignment funds, an increase of $21.4 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 31.60% for Miscellaneous and 37.92% for Safety in FY2024/25.
- Health insurance costs are projected to increase 6% per year based on past rate history for FY2024/25, with 5%-7% annual increases likely in future years.
- Labor costs in FY2024/25 reflect the final year of collective bargaining agreements approved in FY2022/23.
- The County General Fund Contributions through FY2024/25 are listed below:
    - General Fund support for Public Safety is projected to increase from $164.3 million to $173.8 million; a $9.5 million net increase. This increase is primarily due to Salaries and Employee Benefit increases, increases in insurance, inmate costs, and Countywide Administrative Overhead costs.
    - General Fund support for H&SS and IHSS Public Authority is projected to increase from $47.5 million to $56.3 million; a $8.7 million increase. The increase is primarily due to increased spending for the administration of CalFresh, CalWORKS, Child Welfare Services, Public Guardian, Behavioral Health, Health Services, and H&SS Administration 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 primarily fund the structural deficit in FHS. This represents the second year of one-time ARPA-SLFRF funding as $5 million was allocated in FY2023/24, totaling $10 million. There will be no more remaining one-time funds from ARPA in future years to address clinic operational costs.
- The FY2024/25 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 if revenues do not materialize as anticipated.

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

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

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

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

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

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

PENDING ISSUES

Board of Supervisors' Priorities: On April 18, 2023, the Board conducted a priority-setting workshop. The Board identified five major categories of priorities: economic development, agriculture preservation and development, housing, County Services and workforce development, and regulations and policies. The Board identified strategies and actions under each Priority category. Departments implementing Board priorities have included information as they relate to their FY2024/25 Recommended Budget under Pending Issues and Policy Considerations. A full update on the status of Board priorities will be included as part of the FY2024/25 Supplemental Budget.

Supplemental Budget: Historically, the County Administrator's Office prepares a Supplemental Budget document following the completion and distribution of the Recommended Budget, as more of an administrative function, primarily to address accounting notations. To the degree possible, the Supplemental Budget may reflect additional program and service changes 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 2024. To accommodate the release, the departmental budgets reflect only the known and approved State and federal programs changes as of April 2024, which will take effect July 1, 2024.

Proposition 1: 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 is to begin July 1, 2026.

Child Welfare Services: Effective January 1, 2023, Assembly Bill (AB) 2085 (Chapter 770, Statutes of 2022) and Senate Bill (SB) 1085 (Chapter 832, Statutes of 2022) became effective. These two bills have provided guidance to Child Welfare Services regarding the definition of "general neglect". The AB 2085 amended Penal Code (PC) §11165.2, §11166, and §11167. The amendments to PC §11165.2 specify that "general neglect" does not include a parent's economic disadvantage. SB 1085 amended Welfare and Institutions Code (WIC) §300 and §300.2 to prohibit a child from being found within the jurisdiction of the juvenile court solely based on indigence or other conditions of financial difficult.

Poverty is a risk factor for neglect, but poverty does not equate to neglect. Because the general neglect definition is broad and has the potential to be misapplied, reports alleging general neglect may disproportionately impact families experiencing poverty and in need of economic supports. This also contributes to the racial disproportionality of children of color in the Child Welfare System. Impoverished families are believed to comprise the majority of children removed from home into foster care, and neglect is a factor in more than 60 percent of all removals, per federal data.

As a result of this legislation, Child Welfare Services are encouraged to provide referrals to services, support families in economic insecurity, develop clear policies and procedures for determining when a child may be at risk of suffering serious physical harm or illness, and create community pathways for families to access services prior to a call being made to the child abuse hotline. Focusing on these strategies will ensure that families are helped in times of need and not further traumatized by the system. Additionally, this definitional change is intended to mitigate racial disproportionality of marginalized communities of color.

COVID-19 Pandemic: After four 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.

In-Home Supportive Services (IHSS): IHSS 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 is fixed at $16.70 per hour through June 2024. 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 will expire 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) 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 Adopted Budget included 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. The Recommended Budget includes an additional ARPA-SLFRF allocation of $4.7 million to fund the structural deficit in FY2024/25.

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.

Included in CalAIM is a requirement to standardize specialty mental health services (SMHS) for all counties, which means that current Kaiser Medi-Cal specialty mental health services' clients will transition to County Behavioral Health caseload. DHCS has submitted transition guidance on the process for transitioning the clients from Kaiser to Solano County. Kaiser is working collaboratively with Solano County to develop a joint plan that includes methods for identifying members, screening and assessment needed, service types, documentation exchange, staffing/contracts needed, etc. There will be a phased in transition with the planning period going through June 2024 and the transition of clients beginning July 1, 2024 and concluding December 31, 2024.

- The total number of persons transitioning to the Behavioral Health from Kaiser is still being finalized; however, the current initial estimate is 644 individuals with approximately 390 adults and 170 children/youth for Full-Service Partnership and intensive outpatient levels and approximately 70 adults/children in subacute/residential placements. Although is lower than the original estimate of 2,091 individuals, the most significant impact to funding will be those in inpatient care, who are largely not known until they enter crisis. Clients receiving inpatient or residential care, admitted prior to July 1, 2024 by Kaiser will remain the responsibility of Kaiser throughout their entire stay to avoid disruption until January 2025.
- As of January 2024, Kaiser is now a managed care plan (MCP), serving the mild/moderate behavioral health population, similar to Partnership HealthPlan, requiring Behavioral Health to now coordinate with two managed care plans.

Payment reform, under the CalAIM initiative, was implemented in July 2023, and has significantly changed 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 claiming. Behavioral Health has experienced delays in receiving claims data from providers and has limited data with which to develop financial projections and make adjustments to contractor rates to ensure viability in the programming and business models. Behavioral Health and the H&SS fiscal team are working with a consultant to support the division in rolling out Payment Reform (CPT codes, rates for contractors, IGT payments, etc.).

The Healthcare Effectiveness Data Information Set (HEDIS) initiative, also included under the CalAIM Behavioral Health Quality Improvement Program (BHQIP) per Behavioral Health Information Notice No: 23-005 in February 2023 provides performance rates for Medi-Cal managed care health plans. DHCS instituted nine priority behavioral health measures as part of a Comprehensive Quality Strategy (CQS). The county plan priority measures (under MHP and DMC-ODS) are a way of measuring different aspects of care quality like effectiveness of care and access / availability of care. These national measures are best practices under the National Committee for Quality Assurance (NCQA) standards. Many of these metrics have required negotiating with hospitals and managed care plans to access data; and to date, Behavioral Health has been unable to access the full necessary data due to insufficient data exchange processes across plans and systems. This data exchange and resulting data reporting are a priority for receiving incentive payments and meeting compliance requirements.

<u>Lanterman-Petris-Short (LPS):</u> Senate Bill (SB 43) 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, 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>Community Assistance, Recovery and Empowerment (CARE) Court:</u> SB 1338 (Chapter 319, Statutes of 2022) established the (CARE) Act, which created 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 which may be imposed by the Court, and lack of housing stock to meet the requirements of the required client plan. 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 with the State asserting that CARE Court clients are already a county responsibility and should be absorbed into the network. Data reporting and exchange will be critical to develop with information technology supports in the next year.

<u>Mental Health Services Act (MHSA):</u> 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.

<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 $20.7 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.

<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 $50.9 million in the Recommended Budget, representing an increase from revenues projected at FY2023/24 Midyear. The County is anticipating a modest increase in Proposition 172 revenues over the current year's Adopted Budget as the State's economy has been impacted by inflationary measures 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>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. 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. 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 10, 2024, there are 384 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, 2023, 4,487 of the County's 154,247 assessor parcels remain on Proposition 8 status, compared to 78,000 parcels in 2012.

<u>Fire Risk:</u> 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 FY2024/25 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.

<u>American Rescue Plan Act (ARPA):</u> 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. The Board's process to determine the initial allocation of ARPA funding was initially completed in March 2023 and allocated funds toward a total of 58 projects to support recovery and invest in the County's infrastructure for future growth. Since then, some projects have been identified as not being able to be completed as initially designed and other projects have identified the need for additional funds initiating reallocations to meet the Treasury's obligation deadlines. 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 $36.7 million as reflected in the FY2023/24 Midyear projection. If the FY2023/24 Midyear projection for Fund Balance is not met, or there is an unanticipated shortfall in the FY2023/24 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, 2024 exceeds the Midyear projections for FY2023/24, 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 FY2024/25 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 $2 million to Accrued Leave Payoff.
4. Any amount up to $5 million to General Fund Reserves.

This Page Intentionally Left Blank