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DATE: May 31, 2024
TO: Members of the Board of Supervisors and Board of Directors
FROM: M. Christina Rivera, County Executive
SUBJECT: FY 2024-25 General Fund Reserves

Sonoma County enters Fiscal Year (FY) 2024-25 with \$67,946,880 in General Fund Reserves, which equals 10.2% of FY 2023-24 Adopted Budget General Fund operating revenues and 10.1% of FY 2024-25 Recommended Budget General Fund operating revenues. The County Administrator's Office recommends that a minimum \$788,794 in FY 2023-24 year-end available fund balance be added to General Fund Reserves to increase the balance and maintain a funding ratio of 10.2% of FY 2024-25 General Fund sources. No use of reserves is recommended in FY 2024-25.

Current General Fund Reserve Policies

Per the Board's current financial policies:

- "The Board will maintain a minimum level of unassigned General Fund Reserve balance equal to 1/12 (8.3%) or 1 month of annual General Fund revenues. Consistent with best practice recommendations from the Government Finance Officers Association of the United States and Canada, the County will strive to maintain a total unassigned General Fund Reserve balance equal to 1/6 or 2 months of annual General Fund operating revenues."
- "Anytime the Board authorizes drawdown of Reserves, staff will present a re-payment schedule which shall include the amount of state/federal reimbursements expected to be received."

These policies were put in place to ensure the County would have capacity to deal with future emergencies and to maintain the County's credit rating, which is currently AA+ per Fitch. For purposes of the FY 2024-25 Budget, the targeted reserve amount of two months of General Fund revenues equals \$112.1 million.

History and Projections

Prior to the 2017 wildfires, Sonoma County had been steadily increasing reserves toward the target of two months of operating costs. At the start of FY 2017-18, on the eve of the fires, reserves stood at \$53.1 million, or 11.3% of FY 2017-18 operating revenues. In the FY 2018-19 adopted budget, the Board designated \$8.5 million of the reserve balance for recovery and resiliency projects, with a focus on grant matches, as well as designating a \$3.9 million FEMA audit reserve. This left reserves at \$40.7 million, or 8.7% of operating revenues.

Since then, the Board has committed to keeping the Reserve balance at the one-month minimum and maintain the achieved Reserve as a percentage of revenues consistently year-over-year:

- At budget hearings in FY 2020-21, the Board dedicated \$8.5 million in PG&E Settlement funds to replenish the \$8.5 million that was drawn down following the 2017 Wildfires, bringing the total to \$52.8 million or 9.2% of General Fund sources.
- In FY 2021-22, the Board contributed \$1.18 million to reserves based on direction at budget hearings.
- In FY 2022-23, the Board added an additional \$5.5 million.
- In FY 2023-24, the Board approved an initial \$5.0 million contribution to the General Fund Reserves during budget hearings, and after fiscal year-end close an additional \$3.5 million of excess General Fund savings was transferred midyear per the Board’s direction in the FY 2023-24 budget adoption resolution, for a total increase of \$8.5 million.

This brings reserves to the current total of \$67.9 million, or 10.1% of General Fund operating revenues. Because the reserve is calculated as a percent of General Fund operating revenues, it is a moving target that must be increased as revenues increase. Absent additional increases in balance, the Reserves funding ratio will gradually decline toward the one-month minimum over the next several years.

Recommendations

During FY 2022-23 Budget Hearings, the County Administrator recommended that, when available, the Board begin setting aside year-end fund balance totaling 1% of General Fund operating revenues each year until the reserve reaches the target of 16.7%. The Board agreed to consider this proposal on a yearly basis. For FY 2024-25, increasing the General Fund Reserve funding ratio an additional 1% to 11.2% would require a larger contribution of \$7,514,124 from current levels.

Given the limited available one-time funding sources and other competing high priority funding requests to be considered by the Board during budget hearings, the County Administrator’s Office recommends a minimum contribution of \$788,794 to maintain General Fund Reserves at the 10.2% level. Should actual year-end savings exceed the current projected savings based on third quarter estimates, the County Administrator’s Office recommends the Board prioritize allocation of excess savings to the General Fund Reserves (via budget adoption resolution “waterfall” guidance discussed in the **Tab 01 Budget Overview**), in order to continue making progress towards the 16.7% target funding level. The Figure 1 projection scenario below illustrates how setting aside year-end fund balance totaling 1% of General Fund operating revenues each year would improve future funding levels.

