



# OFFICE OF THE COUNTY ADMINISTRATOR

## COUNTY OF SONOMA

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DATE: June 15, 2021

TO: Members of the Board of Supervisors

FROM: Sheryl Bratton, County Administrator

SUBJECT: General Fund Reserves

Sonoma County enters Fiscal Year 2021-22 with \$52,753,495 in General Fund Reserves, exclusive of the \$8,420,804 FEMA Audit Reserve, discussed below. No use of reserves is recommended in Fiscal Year 2020-21. The CAO recommends that \$1.15 million in FY 2020-21 Year End available fund balance be added to General Fund Reserves to maintain a balance of 9.5% of General Fund sources. Additionally, the CAO recommends that \$2.2 million be added to the FEMA Audit Reserve in order to keep pace with additional claims approved during FY 2020-21. This will also come from FY 2020-21 Year End available fund balance.

### **Current General Fund Reserve Policies**

[County Financial Policies](#) set a target for General Fund Reserves of two months operating expenses (16.7% of budget). During the Fiscal Year 2018-19 budget hearings, the Board adopted the establishment of a General Fund Reserve minimum funding level (one month's general fund revenues or 8.3%) and a Replenishment plan. The policy states:

- *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.*
- *Replenishing General Fund Reserve- 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.*

This policy was put in place to ensure the County would have capacity to deal with future emergencies and to maintain the County's credit rating.

For purposes of the FY 2021-22 Budget, the targeted reserve amount of two months' general fund revenues equal \$94.6 million, and one month is \$47.3 million.

### **FEMA Audit Reserve Funds**

The Board also adopted a Federal Emergency Management Agency (FEMA) Audit Reserve specific to the 2017 wildfires to ensure the County has adequate resources set aside to pay for any reimbursements disallowed by the Office of Inspector General (OIG). The OIG generally conducts its audits several years after claims are filed, up to three years after the claim is closed out. The purpose of the FY 2018-19 approved financial policy associated with Reserves was to establish an initial FEMA Audit Reserve and to define the procedures for increasing or decreasing the reserve by describing that an assignment within the county's General Fund Reserve would be recorded rather than creating a separate FEMA Audit Reserve. During the FY 2020-21 Budget Hearings the Board extended the policy to account for all outstanding claims from open disasters and approved an increase of \$3.97 million to \$8.42 million in order to account for 20% of outstanding claims from all currently open disasters.

The ACTTC, CAO, and County Counsel staff will periodically assess the reasonableness of the reserve balance and recommend an increase or decrease as necessary. Reserves will be calculated and maintained on a FEMA project by project basis based on FEMA funding that has been received. Currently, the reserve contains \$8.42 million. Based on a review of current claims, staff recommend adding an additional \$2.2 million to maintain a constant reserve. Attachment A includes a breakdown of FEMA funding received by fund.

### **History and Projections**

Prior to the 2017 wildfires, Sonoma County had been steadily increasing reserves toward the target of two-months of operating costs. In 2017-18, on the eve of the fires, reserves stood at \$53.1 million, or 11.3% of operating expenditures. 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 reserve. This left reserves at \$40.7 million, or 8.7% of operating revenues. In FY 2019-20, the FEMA reserve was increased to \$4.45 million to remain at the 20% of FEMA claims costs target, and the Board added \$2.5 million of FY 2018-19 year end fund balance to bring the reserves to \$43.2 million. In the FY 2020-21 recommended budget this amount constituted less than the one-month minimum, and so \$1.1 million was programmed in June Supplemental adjustments to increase the balance to \$44.3 million. At budget hearings the Board dedicated \$8.5 million in PG&E Settlement funds to replenish that \$8.5 million that was drawn down following the 2017 Wildfires, bringing the total to \$52.8 million or 9.5% of General Fund sources. Because the reserve is calculated as a percent of operating revenues, it is a moving target that must be increased as revenues increase. In FY 2021-22 the \$52.8 million in reserves constitutes 9.3% of General Fund sources, and will fall to 8.6% of sources by FY 2023-24 under current projections.

### **Recommendations**

As discussed above, the County Administrator recommends that the following actions be taken with regard to reserves:

- 1) Program \$1.15 million in FY 2020-21 Year End General Fund Balance to maintain reserves at 9.5% of General fund operating revenues.
- 2) Program \$2.2 million of FY 2020-21 Year End General Fund Balance to increase the FEMA Audit Reserve in order to reflect 20% of all FEMA claims received for outstanding disasters as of 5/27/2021.

**Attachments**

A: FEMA audit Reserve Calculations

ATTACHMENT A: FEMA AUDIT RESERVE CALCULATION

Description	2017-2020 Revenues	2021 Revenue Recognized to Date	Expected Additional 2021 Revenue	Total Expected Revenue through 6/30/21	Calculated 20% Reserve through 6/30/21	Current Reserve Balance	Requested Change in Reserve
2017 January Flood	\$ 875,904	\$ -		\$ 875,904	\$ 175,000	\$ 175,000	\$ -
2017 February Flood	\$ 552,927	\$ -		\$ 552,927	\$ 111,000	\$ 111,000	\$ -
2017 Sonoma Complex Fires	\$ 27,464,018	\$ -	\$ 400,000	\$ 27,864,018	\$ 5,573,000	\$ 5,442,804	\$ 130,196
2019 Feb Flood	\$ 3,976,902	\$ 319,482	\$ 130,000	\$ 4,426,384	\$ 885,000	\$ 795,000	\$ 90,000
2019 Kincade Fire	\$ -	\$ 3,445,785		\$ 3,445,785	\$ 689,000	\$ -	\$ 689,000
2020 COVID-19	\$ 9,483,003	\$ 500,000	\$ 2,000,000	\$ 11,983,003	\$ 2,397,000	\$ 1,897,000	\$ 500,000
2020 LNU Complex Fire	\$ -		\$ 2,000,000	\$ 2,000,000	\$ 400,000	\$ -	\$ 400,000
2020 Glass Fire	\$ -		\$ 2,000,000	\$ 2,000,000	\$ 400,000	\$ -	\$ 400,000
<b>Total - County Governmental Funds</b>	<b>\$ 42,352,754</b>	<b>\$ 4,265,267</b>	<b>\$ 6,530,000</b>	<b>\$ 53,148,021</b>	<b>\$ 10,630,000</b>	<b>\$ 8,420,804</b>	<b>\$ 2,209,196</b>

Notes:

- (1) The calculation above includes all recognized revenues in County governmental funds (General Fund and Special Revenue Funds) from FEMA and CalOES related to open disaster grants from 2017-2021. This is for only FEMA revenue in the County. Does not include CDC, Water, or Open Space or other agencies that may file their own FEMA claims.
- (2) This calculation included only FEMA and CalOES revenues and does not contemplate revenue received from other federal and state sources related to the COVID-19 emergency.