

County Executive
Navdeep S. Gill



County of Sacramento

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To: Board of Supervisors

From: Navdeep S. Gill, County Executive
Britt E. Ferguson, Chief Fiscal Officer

Date: August 23, 2019

Subject: **Adopted Budget Revisions to the FY2019-20 Approved Budget**

On June 11, the Board approved the Recommended Budget ("Approved Budget"), which provides appropriation authority until the budget is adopted.

The purpose of this budget transmittal is to seek Board approval of proposed revisions to the Approved Budget, which include FY2018-19 year-end fund balance adjustments; the re-appropriation of capital projects and purchases and other encumbrance adjustments; and other adjustments.

If the Board approves the revisions to the Budget on September 4, staff will return to the Board on September 24 with resolutions adopting the FY2019-20 Budget. This action will meet the County Budget Act deadline, which requires the Board of Supervisors to adopt the County Budget by October 2 of each year.

General Fund and Realignment Fund Reserves

In light of the fiscal risk factors identified in June and discussed below, the Adopted Budget for the General Fund and Realignment Funds generally utilize any additional fund balance carry-forward and other resources to augment reserves, including:

- An \$8.6 million increase in General Reserves;
- A \$2.6 million increase in the Audit Report Paybacks/Future Litigation Costs Reserve;
- The establishment of a \$2.6 million Protective Services Realignment Reserve; and
- The establishment of an \$11.8 million Social Services Realignment Reserve.

These reserves will help address the following risk factors:

- The potential end of the Foster Care Title IV-E Waiver. That Waiver is currently scheduled to end on September 30, 2019 unless it is extended by Congress and the President. It is looking increasingly unlikely that the Waiver in its current form will be extended, though there are a number of efforts in Congress to provide some short-term assistance or relief to states and counties participating in the Waiver. At this point, it is unclear whether any of those efforts will be successful. If the Waiver ends without any federal or State relief, the County will experience a \$21 million revenue reduction in FY2019-20 and an on-going annual revenue reduction of approximately \$29 million. Both Protective Services and Social Services Realignment revenue can be spent on Title IV-E related programs.
- The potential need to pay a final judgement against the County in the Hardesty-Schneider land use lawsuit, if the appeal of the Federal District Court decision is unsuccessful. The existing judgement against the County is \$106.8 million, not including attorney fees, with a Court of Appeals decision expected sometime in the next two to three fiscal years. If there is a judgement against the County, the County would have to pay at least half that amount (potentially as much as \$53 million plus attorney fees) up front and the rest over time. In addition, in order to stay the judgement pending appeal, the District Court required the County to post a surety bond for \$53.4 million. As one of the conditions for obtaining this bond, the County agreed to put a plan in place to pay off the bond in the event of a final judgement against the County. That plan will likely involve putting aside funds each year in reserve.
- Future costs associated with the Mays jail conditions of confinement litigation consent decree into which the County recently entered. Under the terms of this consent decree, the County is required to implement six remedial plans that will require additional staffing, contract costs, and capital improvements in the jails. The County has already committed approximately \$30 million annually to this effort, but it is expected that the County will need to spend an additional \$20 million to \$30 million annually to fully comply with the consent decree. In addition to annual operating and capital costs, the County will need to pay attorney fees, which will likely be in the \$2 million range.

Summary of Revisions to Approved Budget Appropriations

The Adopted Budget reflects a \$138,093,375 increase in appropriations compared to the Approved Budget for All Funds and a \$5,956,392 increase in appropriations for the General Fund. The increase in appropriations is comprised of:

- A \$120.7 million increase in appropriations to cover the re-budgeting of additional fund balance carry-forward and revenue for expenditures on capital projects, equipment purchases, contracted services and project costs that were originally scheduled to take place in FY2018-19, but that were delayed for a variety of reasons. Almost \$55 million of this increase reflects the re-budgeting of capital projects in the Airports Funds due to project delays. The remainder is mostly the re-budgeting of capital costs or equipment purchases in other funds or the budgeting of additional fund balance carry-forward in Community Facility Districts and other assessment districts.
- A \$17.4 million increase in appropriations to cover other expenditure changes such as the receipt of increased or decreased revenue for various programs, changes in funding requirements received from the State, or appropriation adjustments approved by the Board after the Approved Budget went into effect on July 1. The largest increase is a \$10.8 million increase in the Airport-Capital Outlay Fund, mostly due to the inclusion of funding to purchase new buses.

Attachments

There are six attachments included with this memorandum:

- Attachment 1 provides an overview of the proposed revisions to the Approved Budget.
- Attachment 2 provides a summary by budget unit of the revised fund balance-related and other re-budgeting of revenues and expenditures for General Fund and non-General Fund budget units.
- Attachment 3 provides a summary by budget unit of other changes to the Approved Budget for both General Fund and non-General Fund budget units.
- Attachment 4 provides more detailed information for each budget unit where there is a change from the Approved Budget.

- Attachment 5 contains the State Summary Schedules for the Adopted Budget.
- Attachment 6 contains the recommended Schedule of Adopted Appropriations.