



# Budget Message

Steven M. Smith  
County Administrative Officer

In 2019, the Sutter County Board of Supervisors authorized an additional general fund expenditure of \$700,000 to acquire a federal grant of \$1.1 million to hire six additional fire fighters for three years.



# County of Sutter

## *Office of the County Administrator*

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**Date: June 23, 2020**

**To: Honorable Chair & Members of the Board of Supervisors**

**From: Steven M. Smith, County Administrator**

**Subject: Recommended FY 2020-21 Budget**

On behalf of the County management team, it is my pleasure to submit a balanced Countywide Recommended Budget for Fiscal Year (FY) 2020-21. This document includes estimated revenues/sources of funds and recommended appropriations for both the Operating Budget and Capital Improvement Program (CIP) Budget.

### **Incorporation of Board of Supervisors Top Six Priorities and Goals**

Sutter County policy is guided by a set of six priorities and ten County-wide goals established by the Board of Supervisors. As a policy document, the budget aligns with these principles as the foundation of all the services that the County funds. On March 10, 2020, the Board of Supervisors adopted its Top Priorities for FY 2020-21. The six top priorities are:

- **Priority #1 - Leadership:**  
Provide leadership development; improve employee engagement; and deliver meaningful employee performance appraisals.
- **Priority #2 – Economic Development:**  
Evaluate the efficiency of existing economic development efforts; analyze development fees and their effect on regional development; and analyze current zoning code to explore opportunities to attract businesses specific to Agriculture.
- **Priority #3 – Homelessness:**  
Eliminate camping in undesignated areas; engage non-profits/service organizations; identify and obtain financial resources to help pay for homeless programs; (implement) preventative measures.
- **Priority #4 – Budget and Finance:**  
Adopt and implement a Financial Strategic Plan; engage the Board of Supervisors in the budget development process.

- **Priority #5 - Facilities:**  
Establish and maintain a Capital Improvement Plan; adopt and implement a Facilities Master Plan; update development impact fees; consolidate county campuses.
- **Priority #6 – Sutter Pointe:**  
Analyze the ability to develop infrastructure to ensure commercial/industrial viability within Sutter Point Specific Plan area; ensure land within the Natomas Basin is available for Sutter County development mitigation; work with developers to assist in development of residential properties within Sutter Pointe Specific Plan area.

County-wide goals were first established on September 11, 2018 and were reaffirmed on March 10, 2020 for FY 2020-21. These Goals are:

- A. Provide local government leadership which is open, responsive, ethical, inclusive, and transparent, while recognizing and respecting legitimate differences of opinion.
- B. Operate County government in a fiscally and managerially responsible manner to ensure Sutter County remains a viable and sustainable community to live, work, recreate, and raise a family.
- C. Maintain strong commitment to public safety (including Law Enforcement, District Attorney, Public Defender, Probation, Fire, Emergency Management, and related services).
- D. Provide responsive and cost-effective social services (with measurable results) to an increasingly diverse and complex society.
- E. Provide and enhance public infrastructure, including essential water, wastewater, other utilities, transportation systems (including “Farm to Market” roads), and achieve best possible flood protection for the entire County region, including upgrading necessary levees to obtain reasonable flood insurance coverage to all residents, businesses, and property owners.
- F. Remain committed to community and cultural programs and services, such as Library, Museum, and Veterans services.
- G. Reduce the number of County facilities and ensure that all buildings are maintained at high standards to “lead by example” for other governmental agencies and private sector companies to emulate.
- H. Protect, support, and enhance Sutter County’s rich agricultural base.
- I. Work in partnership with applicable property owners, developers, and service providers to ensure timely implementation of Sutter Pointe Specific Plan.
- J. Implement forward-thinking and “Best Management Practices” to ensure that the County’s workforce will deploy successful succession planning necessary to enable County’s employment base to become more reflective of community’s changing demographics.

This year, the Board of Supervisors will have the opportunity to further refine the priorities and goals along with establishing a County-wide Mission Statement and Customer Service Philosophy that reflect the culture of the organization and ensure continued provision of quality services to the community that we serve.

### **Budget Principles:**

The following principles are used to guide budget development and presentation for the County.

1. Budget and financial information will be presented in a manner that is transparent and as easy to understand as possible.
2. Ongoing expenditures will be funded by ongoing revenues.
3. The County cannot and will not backfill losses in revenue for state mandated programs with discretionary General Fund dollars.
4. Residual General Fund revenues identified after the close of the fiscal year will be used to augment reserves, stabilize long term liabilities, and be accumulated to fund future capital improvements.
5. Funds outside of the General Fund, Health Fund, Trial Court Fund and Public Safety Fund are to accumulate reserves to stabilize services when revenues are lost due to economic or other conditions outside the control of the County.
6. Departments will set measurable performance goals consistent with the County's Goals and Top Priorities and/or with the Department's specific mission and will report on the progress each year.

### **“Status Quo or Below” Budget**

The Recommended FY 2020-21 Budget represents a spending plan that has been aligned with available resources, which have been significantly affected by the COVID-19 emergency and response. The County is an organization committed to living within its means. While the budget reflects an overall stable local economy in the long term, significant financial challenges remain as revenue loss related to COVID-19 is still largely unknown and other revenue growth is slower than the anticipated growth in normal operating expenses. Additionally, many buildings and equipment items need repair or replacement. The CAO's Office issued budget instructions in December that requested departments turn in budgets with a net county cost (appropriations minus program specific revenues) that was equal to or below the FY 2019-20 Adopted Budget level. CAO's office staff and County departments worked tirelessly and collaboratively to meet this requirement and to close a substantial gap between projected revenues and requested appropriations. The result is a Recommended Budget that is balanced by reducing operating costs where possible and prudent and with use of reserves for one-time expenditures and to offset sudden revenue loss. Difficult decisions were made and commendable work was done by all departments to reduce their costs and identify additional revenue. Reductions included holding positions vacant, reducing use of contracts, restricting travel and training, and eliminating or delaying capital projects. The

Recommended Budget also relies on the use of reserves in special revenue funds to continue necessary (and often mandated) service levels despite revenue losses. To ensure long-term fiscal stability, County staff must remain laser focused on revenue performance and ensuring that expenditures are adjusted if revenues do not perform as well as what is assumed in the FY 2020-21 Recommended Budget. Further, without significant revenue growth, County leaders will likely have to consider adjustment to service levels in the coming years. I am confident that the County team has the skill to analyze all aspects of County operations and make sound recommendations to maintain quality services.

### Budget Overview – All Funds Budget

The FY 2020-21 appropriations for all funds is recommended at \$378,067,647, which includes \$374,030,247 in appropriations and \$4,037,400 in increases in committed fund balance. Overall, the year over year change from the FY 2019-20 Adopted Budget is a decrease of \$2,910,080 (0.8%). Appropriations are increased by \$1,127,593 (0.3%) from the Adopted FY 2019-20 appropriations of \$372,902,654. Increases to committed fund balance are decreased by \$4,037,673 (-50.0%) from the FY 2019-20 Adopted Budget. The following table illustrates the allocation among the funds, including the largest operating departments:

No.	Fund	Adopted FY 2019-20	Recommended FY 2020-21	Change	
				Dollars	Percent
1.	General	\$72,118,085	\$67,014,434	(\$5,103,651)	(7.1%)
2.	Welfare/Social Services	54,676,807	60,772,452	6,095,645	11.1%
3.	Bi-County Behavioral Health	49,862,597	51,195,755	1,333,158	2.7%
4.	Public Safety	36,644,094	39,629,802	2,985,708	8.1%
5.	Health Services	14,821,955	16,078,710	1,256,755	8.5%
6.	Road	13,133,246	14,839,177	1,705,931	13.0%
7.	Trial Courts	10,873,760	10,733,301	(140,459)	(1.3%)
8.	Information Technology ISF	5,677,697	4,392,478	(1,285,219)	(22.6%)
9.	Capital Projects	8,555,871	3,376,532	(5,179,339)	(60.5%)
10.	Child Support Services	3,014,922	2,805,624	(209,298)	(6.9%)
11.	Fleet Management ISF	1,135,455	1,115,434	(20,021)	(1.8%)
	Other Funds	110,463,238	106,113,948	(4,349,290)	(3.9%)
	<b>TOTAL</b>	<b>\$380,977,727</b>	<b>\$378,067,647</b>	<b>(\$2,910,080)</b>	<b>(0.8%)</b>

The largest single budget increase (\$6,095,645) (11.1%) exists within the Welfare/Social Services Fund. Due to the impact of COVID-19 and a general slowing in the economy, the department projects increases in eligibility determination/administration of programs (\$1.69 million), CalWORKs benefits and training (\$754,000), Foster Care (\$1.75 million) and Aid for Adoption (\$804,000). In addition, an increase in hourly pay and benefits for In-Home Supportive Services providers was recently negotiated. The higher wages and benefits, coupled with growth in the program, increases the budget by \$1.1 million. The increases are paid for with a combination of federal and state funds with the local share of cost coming from 1991 and 2011 Realignment. The General Fund maintenance of effort of \$449,000 is not affected by these increases.

The recommended appropriations for the Public Safety Fund include an increase of \$2,985,708 (8.1%). This is attributable to the increase in negotiated salaries and benefits, as well as increased operating costs, including the escalating cost of operating the Jail. Within this fund, increases occur in the Jail Budget (\$1.29 million) Sheriff-Coroner (\$811,000), Bi-County Juvenile Hall (\$492,000), Sheriff Live Oak Contract (\$267,000) Sheriff Boat Patrol (\$80,000), Emergency Services (\$65,000), Net-5 (\$42,000), and Fire Services Administration (\$12,000). Increases are offset by reduced appropriations in Victim Services (-\$45,000), Sheriff Communications (-\$43,000) and the District Attorney (-\$28,000). All departments in this fund receive outside funding from federal and state sources. However, the increases in the public safety fund have outpaced outside funding, resulting in nearly \$2.5 million in increased General Fund cost. The growth in the Public Safety fund is specifically addressed later in this report.

The \$1.7 million increase in the Road Fund is due to bridge, road and overlay projects planned in FY 2020-21. Detail on the specific plan can be found in the Road Fund narrative.

The increase in Behavioral Health of \$1.33 million is attributed to increased Salary and Benefit Cost, Services and Supplies including Professional and Specialized Services, Liability Insurance and Worker's Compensation insurance increases. Higher operating cost appropriations are offset by a reduction in Other Charges.

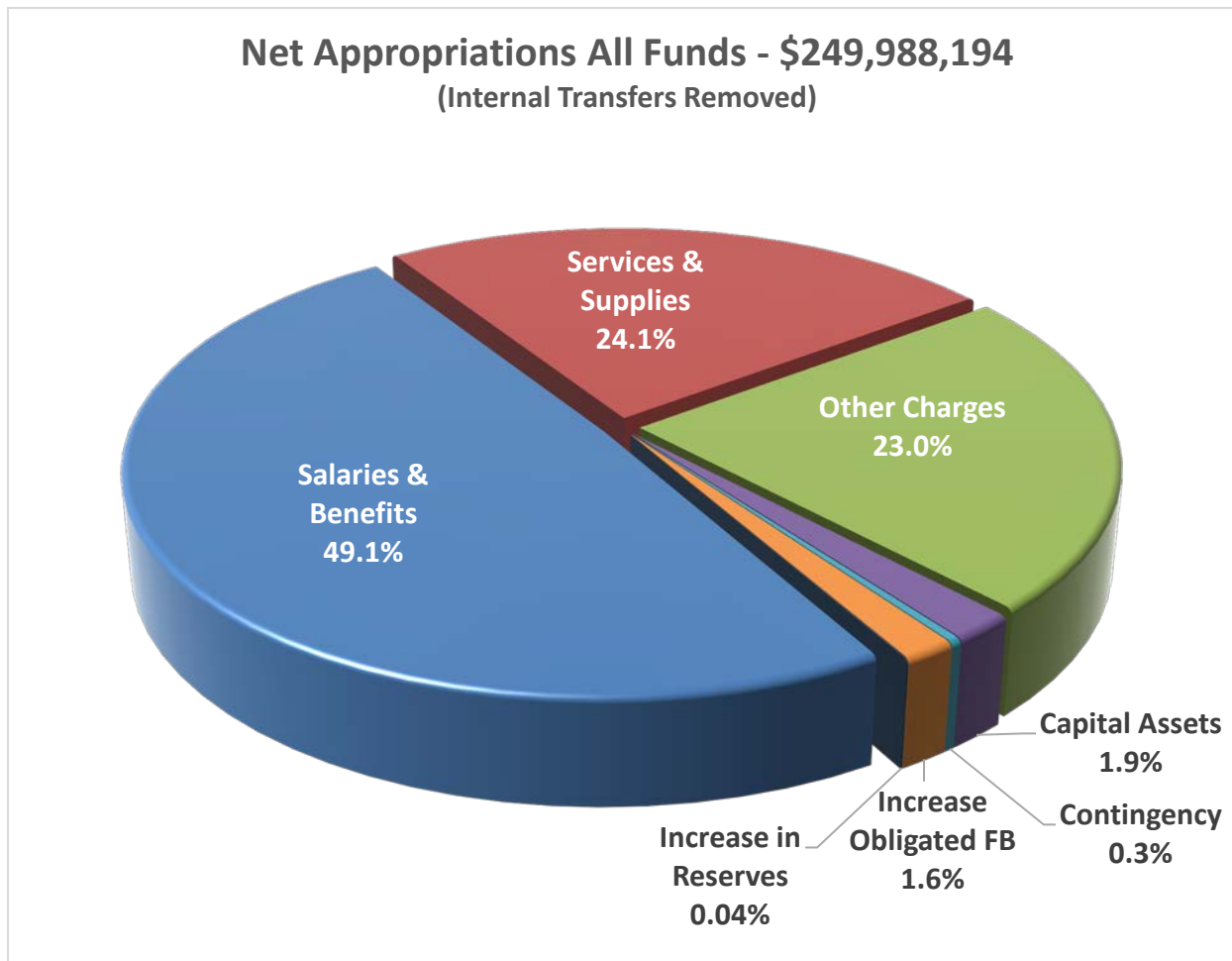
The Health Fund includes recommended appropriations increased by \$1.26 million from the FY 2019-20 Adopted Budget. The increase is mainly due to increased operating costs in the County Health and Human Services Administration budgets as well as an increase of more than \$400,000 in Jail Medical cost. While costs increase, the increases have been supported by use of state and federal revenues and Realignment funds and a one-time special revenue fund augmentation of \$250,000. The actual General Fund cost has been reduced by \$208,429 from the FY 2019-20 Adopted Budget.

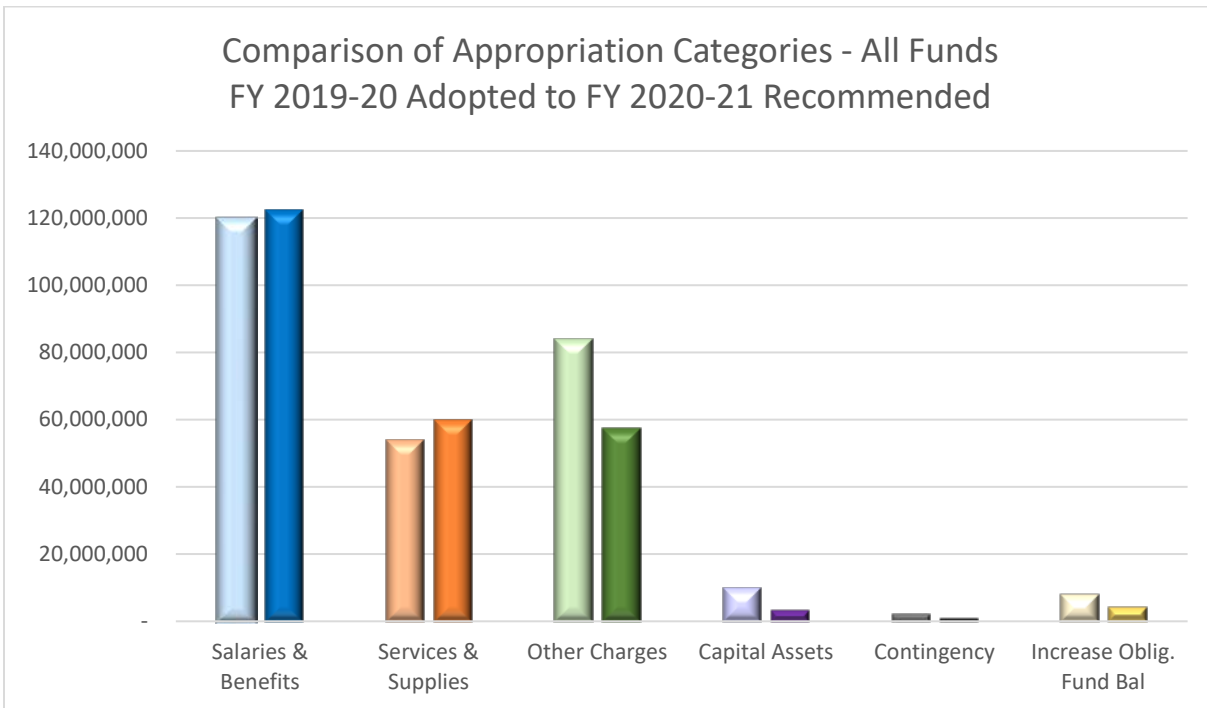
Recommended appropriations for Capital Projects are decreased by nearly \$5.2 million, mainly due to completion of large projects started in previous years and only one new capital project being funded by the General Fund in FY 2020-21. The capital projects are discussed in more detail in the narrative for Fund 1600 – Capital Projects.

A decrease in the recommended appropriations for the Information Technology (IT) Internal Services Funds is attributed to decreased staffing costs, a reduction in software licensing and maintenance and a decrease in capital asset (equipment) purchases. Information Technology provides services to all departments within the County. In an effort to reduce operating costs in all programs, IT is holding two positions (11.1% of allocated positions) vacant for a savings of approximately \$217,392 in the budget year.

The \$5.1 million decrease in the General fund is discussed in the next section.

Recommended appropriations for all County funds (including increases in obligated fund balance/reserves) total \$378,067,647, an increase of \$2.9 million over the FY 2019-20 Adopted Budget. However, this amount includes all revenue transfers between funds totaling \$128,079,453, which must be recognized as expenditures. When those are removed, the net appropriations are \$249,988,194. This number represents the value of programs and services that the County provides. The following charts show how the money is spent.





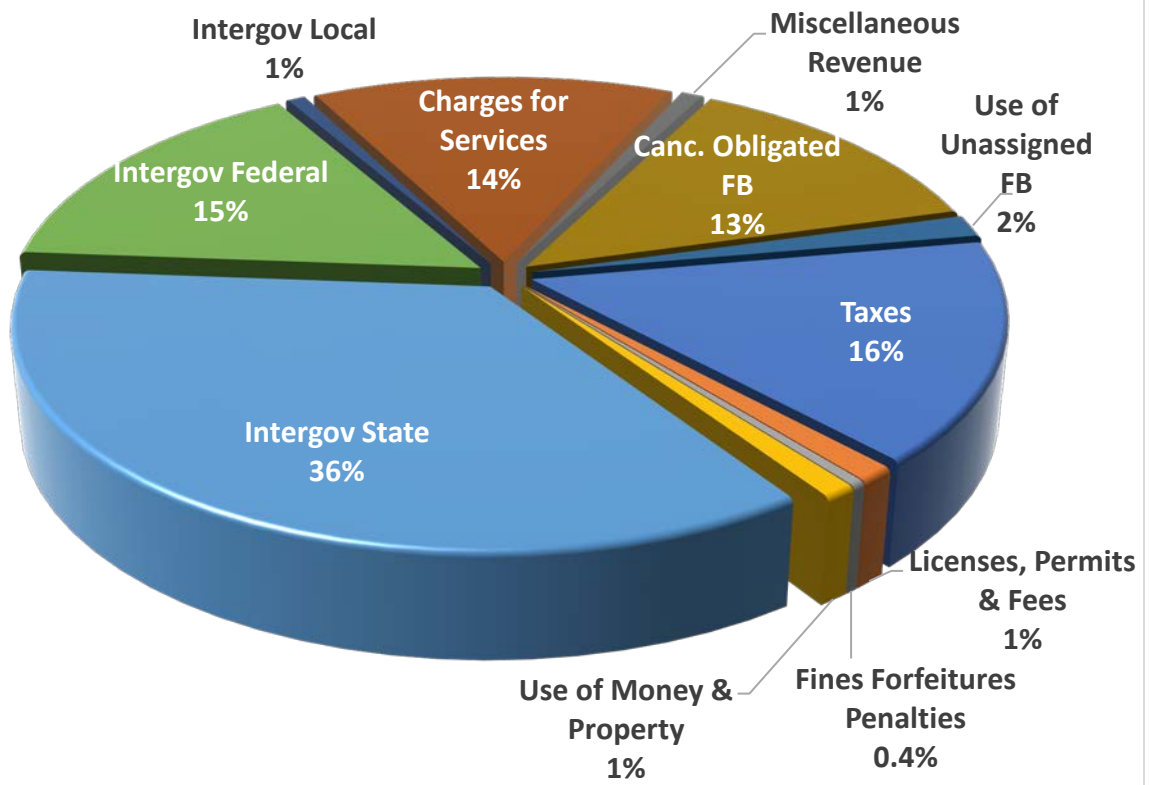
Salaries and Benefits appropriations include the cost of regular and extra help wages, overtime, and special pay, payroll taxes, health insurance and the County’s contribution to employee’s health savings accounts (for high deductible plan enrollees), pension cost, unemployment cost, and worker’s compensation. Services and Supplies appropriations include normal operating supplies, professional and specialized services and overhead charges allocated through the County’s annual cost plan. Other Charges covers costs for the support and care of persons for whom the County has responsibility, such as foster care payments, adoptions assistance, psychiatric hospitalizations, housing support, CalWORKs and In-Home Supportive Services payments, and jail medical cost. In addition, the Other Charges category includes the County’s contribution to other agencies, taxes and assessments the County pays for leased property, general insurance and bonds, debt service and interest and County Treasury fees. The majority of the decrease in this category is the result of moving operating transfers from the Other Charges category to Other Financing Uses. Capital Assets includes purchases of equipment and other assets costing more than \$5,000 and/or lasting more than one year as well as construction projects. Contingency is a special appropriation to provide funds for costs unforeseen when the budget was developed. Increase in Obligated Fund Balance represents funds that are held in special accounts and restricted in use by the Board or by legislation for a specific purpose. Contributions to increase reserves are included in this category. Operating Transfers totaling over \$128 million are not displayed on this chart as the appropriations represent the transfer of revenue between departments and programs without any exchange of service.



Revenues supporting all funds total \$378,067,647, which is made up of \$341,520,579 in revenues and use of \$36,547,068 in use of cancellation of obligated fund balance in the General Fund and Special Revenue Funds, as well as General Fund unassigned fund balance carried forward as savings from FY 2019-20. Revenues are projected to decrease by \$5.8 million (-1.7%) and use of unassigned and committed fund balance is increasing by \$2.9 million (8.6%). This is reflective, in part, of the loss of revenues related to COVID-19 and more reliance on reserves to sustain important programs. At this time, revenue losses related to COVID-19 are only estimates, as the actual impact will not be known until August or September. Staff will return to the Board of Supervisors with updated revenue numbers and recommendations during Budget Hearings later in the year.

Revenues must be recognized in each budget unit or fund that receives them, even when they are coming from another fund within the County. This inflates the overall true revenue number. When interfund revenue transfers are removed, actual revenues, including use of fund balance, are estimated at \$249,985,535. The chart below shows the sources of revenue in proportion to the total. Federal and state revenues account for 51% of total revenues, while Taxes account for 16%, Charges for Services account for 14%. Miscellaneous Revenue, Intergovernmental revenues generated locally, Fines, Forfeitures and Penalties, Licenses, Permits and Fees combined account for about 3% of revenues, and Interest revenue for 1%. Use of Unassigned and Obligated Fund Balance accounts for the remaining 15% of funding available to support recommended appropriations.

**Revenues All Funds - \$249,985,535**  
(Revenue transfers removed)

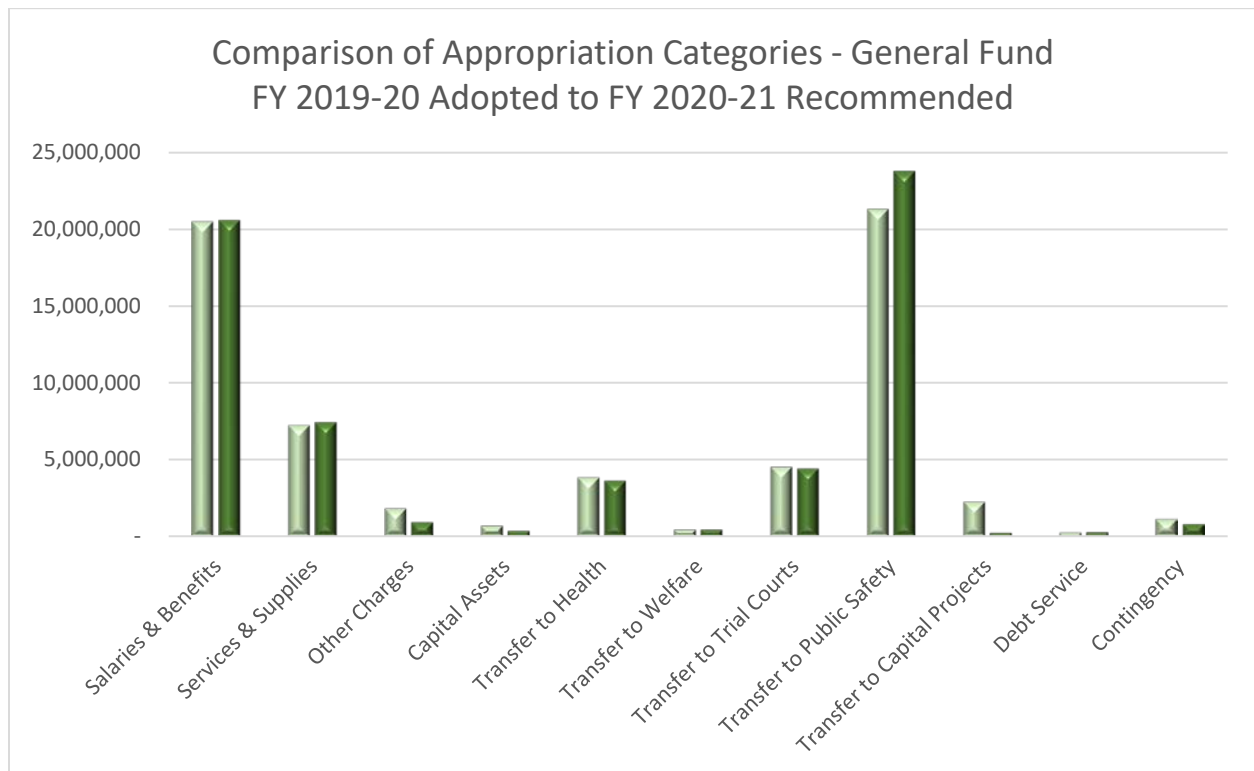


## Budget Overview – General Fund Budget

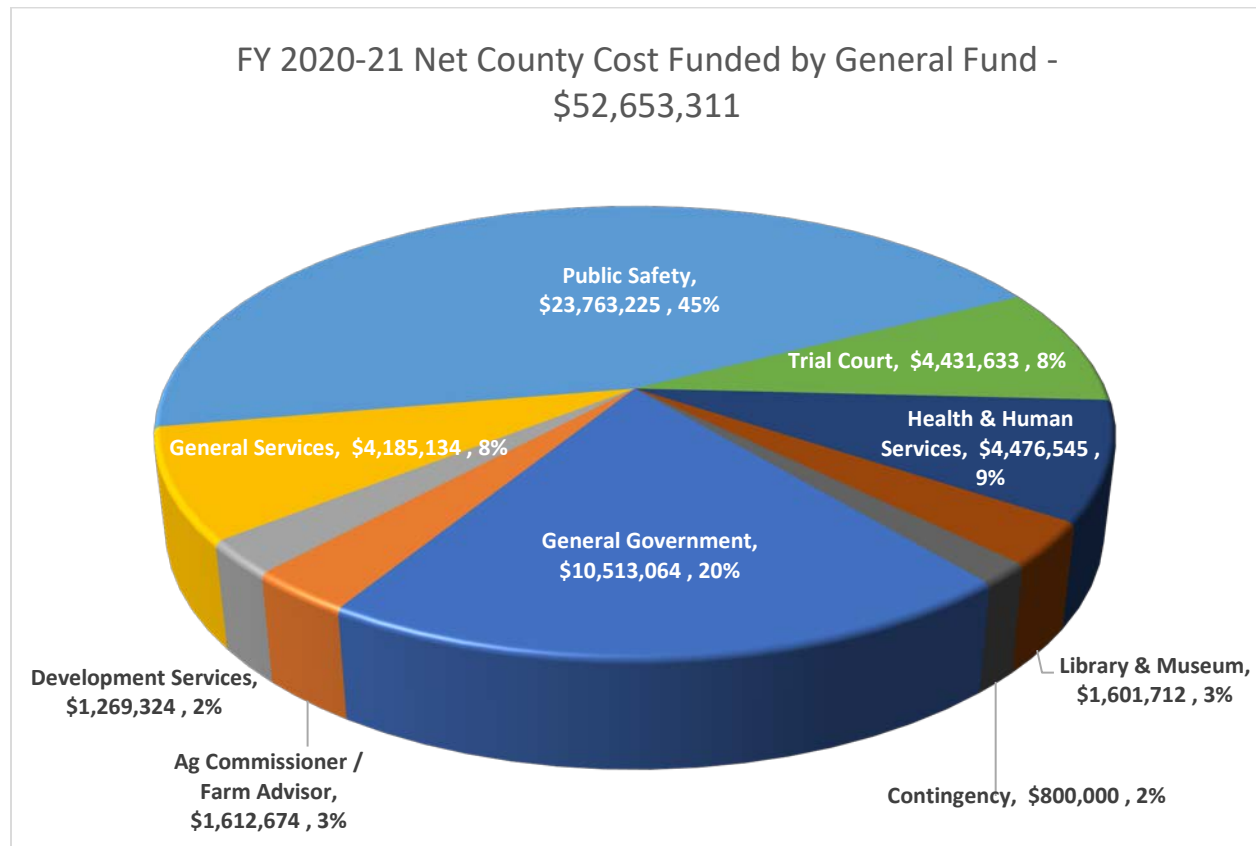
General Fund appropriations are recommended at \$67,014,434, a decrease of \$5,103,651 (-7.1%) from the FY 2019-20 Adopted Budget. Salaries and Benefits increased by \$117,510 (0.6%). While overall personnel-related costs increased significantly, many positions are being held vacant to generate salary savings. Services and Supplies increased by \$215,619 (3.0%).

The Other Charges category includes transfers from the General Fund to other funds such as the Public Safety, Trial Courts and Health Funds. The transfer to the Health Fund decreased by \$208,429 (-5.4%); the transfer to the Trial Courts Fund decreased by \$108,496 (-2.4%), the transfer to the Public Safety Fund increased \$2,494,968 (11.7%), and the transfer to the Welfare Fund remained at the MOE level of \$449,000. The transfer to the Capital Projects fund decreased by \$2,014,446 (-89.0%) reflecting a reduction in General Fund-funded capital projects. The only General Fund project planned in FY 2020-21 is the ADA and office remodel at 1160 Civic Center Boulevard to accommodate the move of the Auditor-Controller and Treasurer-Tax Collector out of 463 Second Street. Other Charges is presented below with the major operating transfers displayed discretely.

Capital Assets decreased by \$326,400 (-46.4%) mainly due to deferring equipment purchases to balance the budget. The Appropriation for Contingencies is reduced to \$800,000, which is consistent with appropriations in fiscal years prior to FY 2019-20, when the Contingency was increased to reflect savings by prepaying the CalPERS unfunded liability payment.



The General Fund supports the majority of County programs, mainly through use of Property Taxes, Sales Tax and other discretionary revenues, explained more thoroughly in the General Revenues budget (1-209) narrative. The cost of all programs funded by the General Fund is \$52,653,311. This represents the appropriations minus any department specific revenues for each area of government supported by General Fund dollars. The following chart shows the variety of programs directly supported by General Fund dollars.



As a policy document, the General Fund budget shows areas where the County places emphasis. For example, the chart above shows the largest share of funding (\$23.8 million – 45%) goes directly to Public Safety programs, including the Sheriff, the Jail, Juvenile Hall, and the District Attorney, as well as Emergency Management and Fire Administration, while another \$4.4 million (8%) goes to the Trial Courts, which includes the Probation Department, Court Bailiff services provided by the Sheriff, and the Maintenance of Effort payment that the County is required to pay to support court functions. General Government, at \$10.5 million (20%), represents the basic services provided to operate the County such as the Assessor, Auditor-Controller, Treasurer-Tax Collector, County Clerk/Elections, Human Resources, County Administrator, Board of Supervisors, and many other necessary functions. It also includes payment for non-department specific expenditures such as the County audit, specialized professional

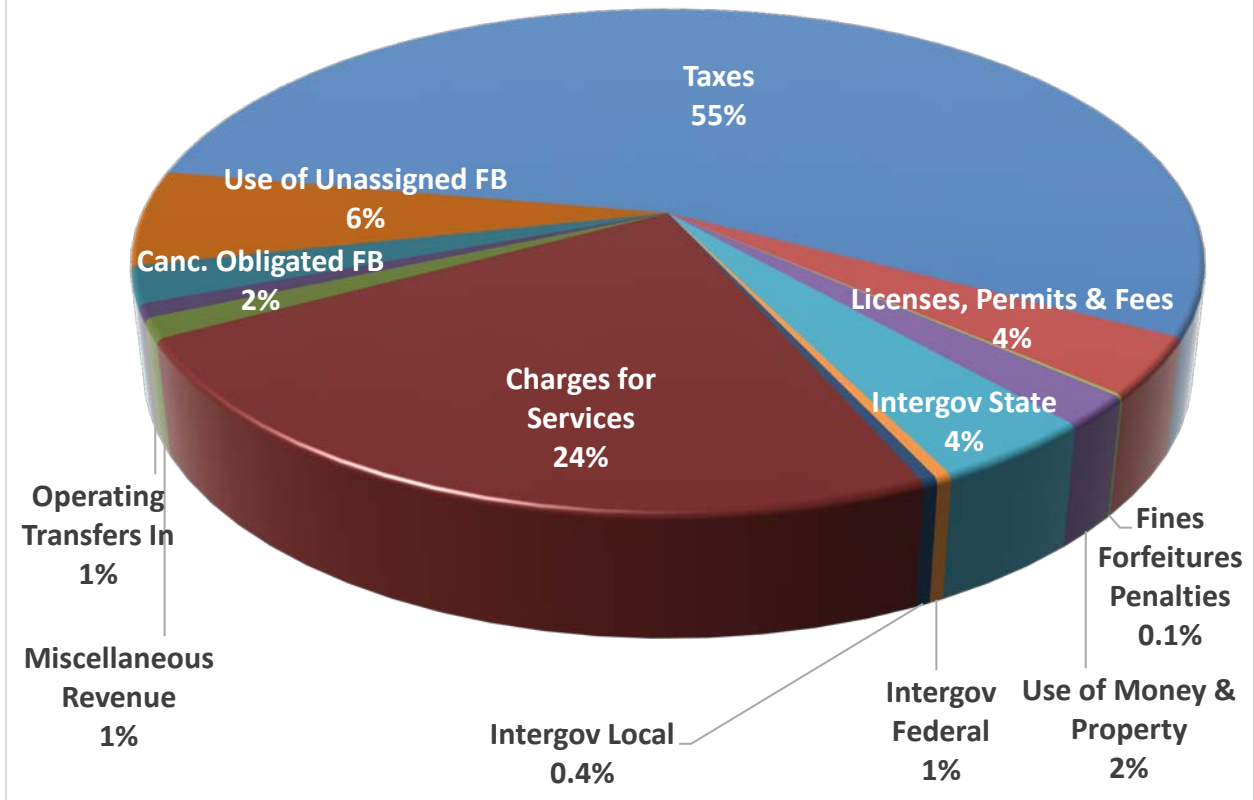
services, and contributions to the Yuba-Sutter Economic Development Corporation and Area 4 Agency on Aging. Much of this cost is recovered through the County's annual Cost Plan, which allocates overhead cost to all programs, including those funded by federal, state and outside sources.

Development Services (\$1.27 million – 2%) includes the County Planning, Building and Environmental Health services. General Services (\$4.2 million – 8%) includes Building and Grounds maintenance for all County facilities, Parks and Recreation, and maintenance of Ettl Hall and the Veterans Memorial Community Building, as well as oversight of Fleet Management and Information Technology functions for the entire County. The Contribution for Health and Human Services (\$4.5 million – 9%) funds the cost of Public Health communicable and chronic disease prevention and control and jail medical services, the Maintenance of Effort for Social Services (\$449,000), Public Guardian, Veterans Services, and General Relief. Funding for the Sutter County Library and Sutter County Museum (\$1.6 million – 3%) invests in services to promote education and enrich the community. Funds appropriated for the Agricultural Commissioner and the Farm Advisor (\$1.6 million – 3%) ensure that services are available to support our local agriculture economy. Finally, an Appropriation for Contingencies of \$800,000 (2%) ensures that funds are available for unforeseen events throughout the budget year. It is important to note that Behavioral Health Services provided for both Sutter and Yuba Counties is funded through a combination of federal, state, and local Realignment funds and Mental Health Services Act Funds from both Sutter and Yuba Counties and, therefore, does not require a General Fund contribution to deliver quality services.

Revenues to support General Fund-funded programs total \$67,014,434, which includes pass through Realignment revenue for Health and Social Services. When that revenue is removed, the actual revenue in the General Fund is \$62,995,717. Revenue to support General Fund obligations comes from a mixture of Taxes (55%), Charges for Services and Operating Transfers, including internal cost plan (overhead) charges calculated in compliance with federal regulations (25%), Intergovernmental Revenue from state, federal and local sources (5.4%), Licenses, Permits and Fees (4%), and use of fund balance, both unassigned and committed (6%). Use of Money and Property, which includes interest revenue and rental income from use of County-owned space totals 2%, while Miscellaneous revenue and Fines, Forfeitures and Penalties make up the remaining approximately 2.6%. The following chart shows the revenue sources in proportion to the total revenues received.

# General Fund Revenue - \$62,995,717

(Pass through revenue removed)



## Countywide Staffing

Recommended Countywide Full-Time Equivalent (FTE) positions for all 20 Departments is as follows:

No.	Department/Office	Revised FY 2019-20	Recommended FY 2020-21	Change
1.	Health and Human Services	545.13	545.13	0.00
2.	Sheriff	149.00	149.00	0.00
3.	Development Services	81.00	60.00	(21.00)
4.	General Services	57.00	57.00	0.00
5.	Probation	47.00	47.00	0.00
6.	District Attorney	32.00	31.00	(1.00)
7.	County Administrator's Office	9.00	31.00	22.00
8.	Child Support Services	28.00	27.50	(0.50)
9.	Agricultural Commissioner	19.00	19.00	0.00
10.	Assessor	17.00	17.00	0.00
11.	County Clerk-Recorder	15.00	15.00	0.00
12.	Auditor-Controller	12.45	12.45	0.00
13.	Library	12.15	12.15	0.00
14.	Human Resources	9.25	9.15	(0.10)
15.	Treasurer-Tax Collector	9.00	9.00	0.00
16.	County Counsel	7.70	7.80	0.10
17.	Board of Supervisors	6.00	6.00	0.00
18.	Sutter County Museum	2.05	2.05	0.00
19.	Bi-County Farm Advisor	2.00	2.00	0.00
20.	Public Defender	1.00	1.00	0.00
	<b>TOTAL</b>	<b>1,060.73</b>	<b>1,060.23</b>	<b>(0.50)</b>

The overall number of County Full Time Equivalent (FTE) positions is proposed to decrease by 0.5 FTE from 1,060.73 to 1,060.23. Within the General Fund departments, there is a net of 1.0 FTE positions added in Development Services. A total of 22.0 FTE positions was moved from Development Services to the County Administrator's Office to transfer County Service Area-F fire personnel, as the positions now come under the

supervision of the County Administrator through the County Fire Chief. All increases, decreases and transfers are as follows:

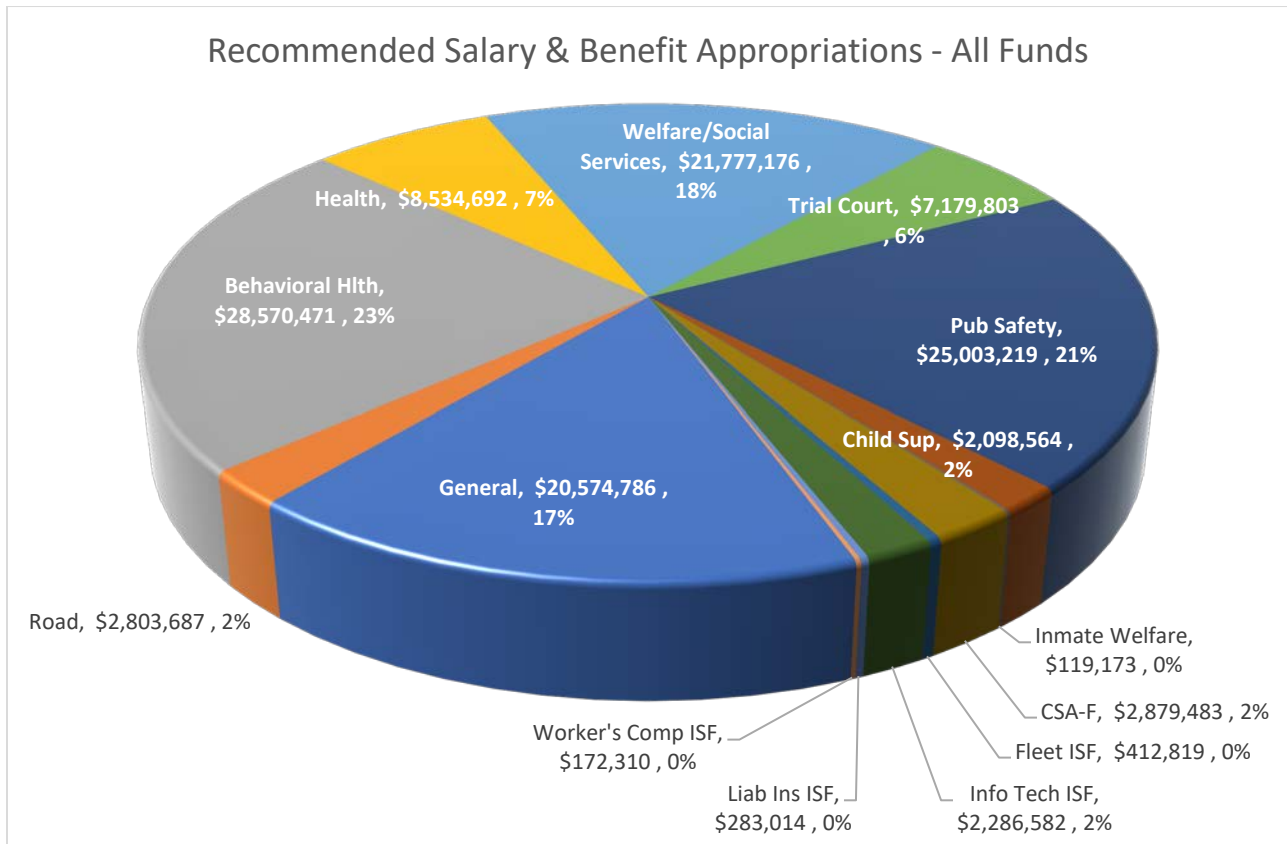
- Addition of 1.0 FTE Project Coordinator in Development Services Administration (2-721).
- Transfer of 2.00 FTE Fire Battalion Chief, 9.0 FTE Fire Captain, 5.0 FTE Engineer, and 6.0 FTE Fire Engineer Limited Term from County Service Area F (Fund 0305) to County Administrator's Office. Total of 22.0 FTE.
- Elimination of 1.0 FTE Office Assistant in District Attorney (2-125)
- Elimination of 0.10 FTE Office Assistant in Human Resources (1-401)
- Elimination of 0.5 FTE (1.0 FTE for half year) Child Support Attorney Limited Term

Reorganization of positions within County Counsel budget units (0.1 FTE Net Increase)

- Increase of 0.8 FTE Deputy County Counsel Flex 1-4 to County Counsel (1-301)
- Elimination of 0.1 FTE Deputy County Counsel Flex 1-4 in Liability Insurance Internal Service Fund (ISF) (Fund 4590)
- Elimination of 0.2 FTE Deputy County Counsel Flex 1-4 in Worker's Compensation ISF (Fund 4591)
- Elimination of 0.2 FTE Office Assistant in Liability Insurance ISF (Fund 4590)
- Elimination of 0.2 FTE Office Assistant in Worker's Comp ISF (Fund 4591)
- Transfer of 0.3 FTE Admin Assistant to County Counsel from County Counsel (1-301) to Liability Insurance Internal Service Fund (ISF) (Fund 4590)
- Transfer of 0.2 FTE Assistant County Counsel from County Counsel (1-301) to Liability Insurance ISF (0.1 FTE) (Fund 4590) and Worker's Comp ISF (0.1 FTE) (Fund 4591)
- Transfer of 0.1 FTE County Counsel from County Counsel (1-301) to Liability Insurance ISF (Fund 4590)
- Transfer of 0.3 FTE Office Assistant – Confidential I/II Flex from Worker's Comp ISF (Fund 4591) to County Counsel (1-301)



The cost of personnel is spread among numerous departments within many of the County's funds. Total personnel cost is recommended at \$122,695,779, an increase of \$3,955,833 (3.3%) over the FY 2019-20 Adopted Budget. While rising personnel costs are included, the recommended appropriations in many budgets are reduced by a vacancy factor totaling \$2.03 million to account for normal attrition in positions and vacancies held for cost savings.



## Future Challenges

While the overall State (inner Metro Sacramento region) economy is growing, the Yuba-Sutter regional economy remains relatively flat. Sutter County serves as a combined agricultural driver (with an incredible, diverse array of highly productive orchards, crops, and other agriculture-based products) and a desirable suburban residential community to Sacramento. The local Sutter County economy, to a large extent, functions as a secondary market within the broader metropolitan Sacramento region.

As the County seat, Yuba City contains the largest population base (with just over 70,000 residents) and serves as the economic engine for the northern region of Sutter County. If development commences in a few years within the Sutter Pointe Specific Plan area, located inside of the protected Natomas Basin Conservancy area, this strategic location will serve as an economic engine for the southern region of the County. This will further diversify and strengthen the broader Sutter County trade area and provide Yuba City, Live Oak, Sutter, and other northern County communities with a more direct connection to Sacramento.

As a local government, Sutter County has very limited ability to raise revenue to support the vast array of municipal services it is charged with providing to residents and businesses covering approximately 600 square miles. The few taxes and fees which the County relies on are among the lowest in California and are infrequently adjusted (most do not keep up with inflation).

Sutter County is also highly dependent on Federal and State government funding to support a large portion of the regional and social services it is obligated to provide. To complicate matters, the County's changing demographics have resulted in rising service needs and demands for public assistance above the Statewide average. For example, demands for many health and human services and public safety services continue to increase at concerning rates.

Consequently, Sutter County government has learned to live with limited financial resources during recurring years of rising service demands. This, in turn, has caused the County to defer maintenance of its many buildings, vehicles, equipment, and assets. The County has also reduced staffing, passed on benefit costs to employees, contracted out services, combined operations and services where possible with other service providers, and cut back on employee training and development. After years of making "one-time" cuts and reductions, the County remains at a crossroads with respect to looking toward the future.

For FY 2020-21, the CAO's office directed departments to turn in budgets with a Net County Cost that was equal to or below the FY 2019-20 Adopted Budget level. New positions would only be recommended if they were supported by outside funds. Further, operating costs were reduced, where possible, to offset increasing less-controllable costs. Once all requests were in, the budget for FY 2020-21 had a deficit of more than \$3.5 million. Working together, County Department Heads, along with CAO staff, closed the gap using a variety of means, some temporary and some more permanent. One of the factors affecting the budget deficit was the loss of sales-tax related revenue in both the

current year and the upcoming budget year due to business interruption caused by the response to the COVID-19 emergency. Below are a few of the strategies that were necessary to balance the FY 2020-21 budget:

- Assuming salary savings for the budget year. The County typically budgets for every position to be filled for the entire year, although all departments experience savings throughout the year as positions become vacant and take time to fill. Historically, departments have had consistent annual average vacancy rates ranging from a low of 0.6% to as much as 20%. Historical average vacancy rates were calculated for each department, and a “vacancy factor” of approximately 3% was deducted from overall salaries and benefits in departments of 15 or more employees who had an historic vacancy rate greater than 5% or departments of less than 15 employees who had an historic vacancy rate greater than 10%. Further, some department are holding positions vacant for part or all of the year to generate additional savings. This strategy, which was first implemented in FY 2019-20, produced savings of just over \$2 million. Departments will have to be vigilant in monitoring their Salaries and Benefits cost to ensure they stay within their overall appropriation levels.
- Suspending payment of the County’s contribution to its pension prefunding account with the Public Agency Retirements Services (PARS). This resulted in a savings of \$1 million, but funding for this important program will be recommended to be restored if revenues perform better than budgeted expectations.
- Using Special Revenue Funds for one-time purchases and projects. The County has allowed restricted monies in specific special revenue funds to build up over time. As a result, some special revenue funds had accumulated significant restricted fund balance. Staff analyzed the funds to determine where money could be used for appropriate one-time costs. This freed up General Fund dollars that would have otherwise been spent on projects that qualified for restricted fund use. An example is using special revenue funds to purchase two Sheriff vehicles.
- Delaying and eliminating capital projects. A number of capital projects were included in the requested budget. Staff reviewed all projects with Development Services and determined a number that could be eliminated or delayed until future years. For FY 2020-21, only one project will be funded by the General Fund. The ADA improvements and office remodel to accommodate the Treasurer-Tax Collector and Auditor-Controller, estimated at \$500,000, will be funded with a combination of General Fund revenues and Developer Impact Fees.

A sample of the immediate and near-term budget challenges confronting the County includes the following:

### **The Impact of COVID-19**

The prevention efforts to combat the spread of COVID-19, namely the statewide stay-at-home order, caused a major disruption to the local, state and national economies. Sutter County relies heavily on sales tax revenue to fund general government, public safety, and health and human services functions. An immediate and precipitous drop in sales tax revenue occurred. While millions of dollars in revenue were lost, the County had to immediately respond to the loss of \$700,000 in discretionary sales tax and \$1.7 million in Prop 172 sales tax for public safety. Both of these had a profound and immediate effect on the General Fund, and it was difficult to balance the budget with the loss of this revenue. Other public safety and health and human services programs lost funding as well. It was only through reserves, accumulated over the past few years, that services were preserved, and deep and drastic cuts were avoided. If a prolonged and/or deep recession results from the impact to the economy, then the County will face difficult decisions about which programs to cut and which to continue to fund.

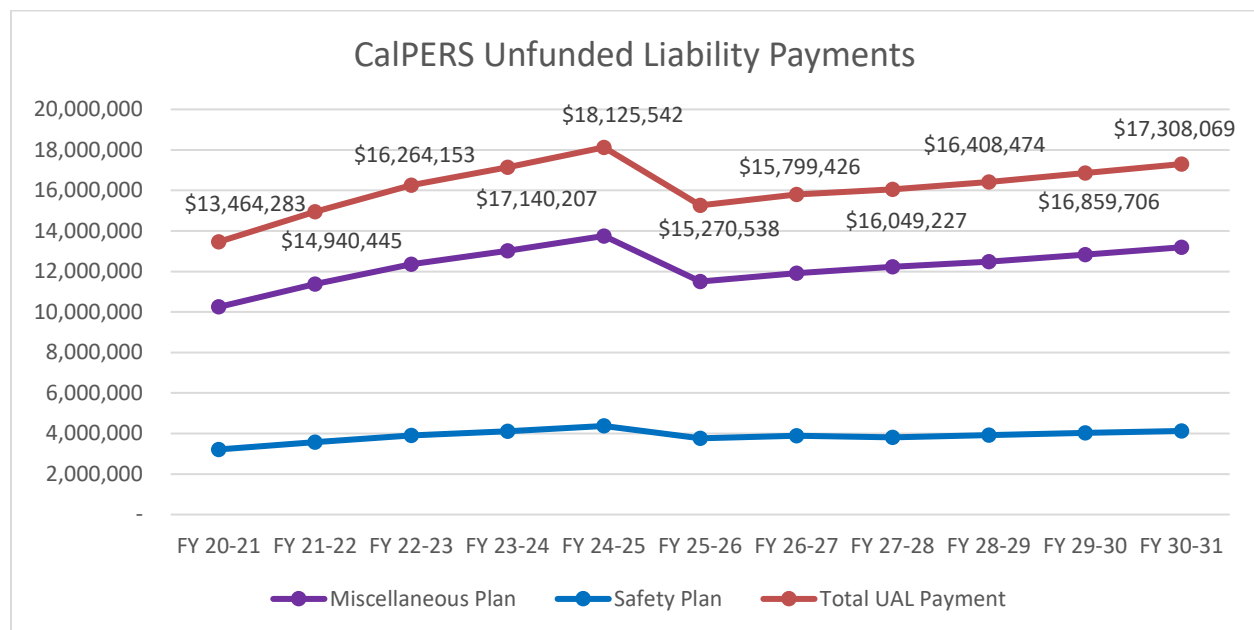
COVID-19 has, on the other hand, brought an opportunity for additional funding. The Governor's May Revised budget includes an allocation of \$9.925 million in federal Coronavirus Aid, Relief and Economic Security (CARES) Act funds for Sutter County to address the impacts of COVID-19 in the community. While these funds cannot replace lost revenue and must be spent by December 31, 2020, they can pay for County costs such as paying salaries and benefits of staff who are substantially assigned to COVID-19 response and mitigation, implementing community benefit programs for businesses impacted by the emergency, purchasing personal protective equipment, sanitizing facilities, and assistance to ensure appropriate response and prevention in the homeless community. While the final allocation is not yet known, and the mechanism is not yet established to draw down funds, staff will remain vigilant to ensure that funds are captured to the benefit of our community.

### **Bogue-Stewart Master Plan Area**

On June 5, 2018, voters residing within the 625-acre "Keyhole Area" of south Yuba City voted not to annex into the City of Yuba City. Although the proposed annexation did not pass, the City continues to work on the Bogue-Stewart Master Plan, an area within the City's Sphere of Influence. Should development in this area take place, the existing 17-year-old Tax Exchange Agreement between Yuba City and Sutter County will not bring "revenue neutrality" between the impacted local governments (in this case, Yuba City and Sutter County). Achieving a balanced "revenue neutrality" arrangement has been a long-time goal of Local Agency Formation Commissions (LAFCOs) across the State of California and remains imperative to sustaining Sutter County services. Thus, the County continues to work with the City of Yuba City on revising the existing Master Tax Exchange Agreement. A more balanced, revenue-neutral, tax exchange agreement that takes into consideration the big picture impacts to local taxpayers is needed for all future annexations (and Sphere of Influence boundary adjustments).

## Pension Funding

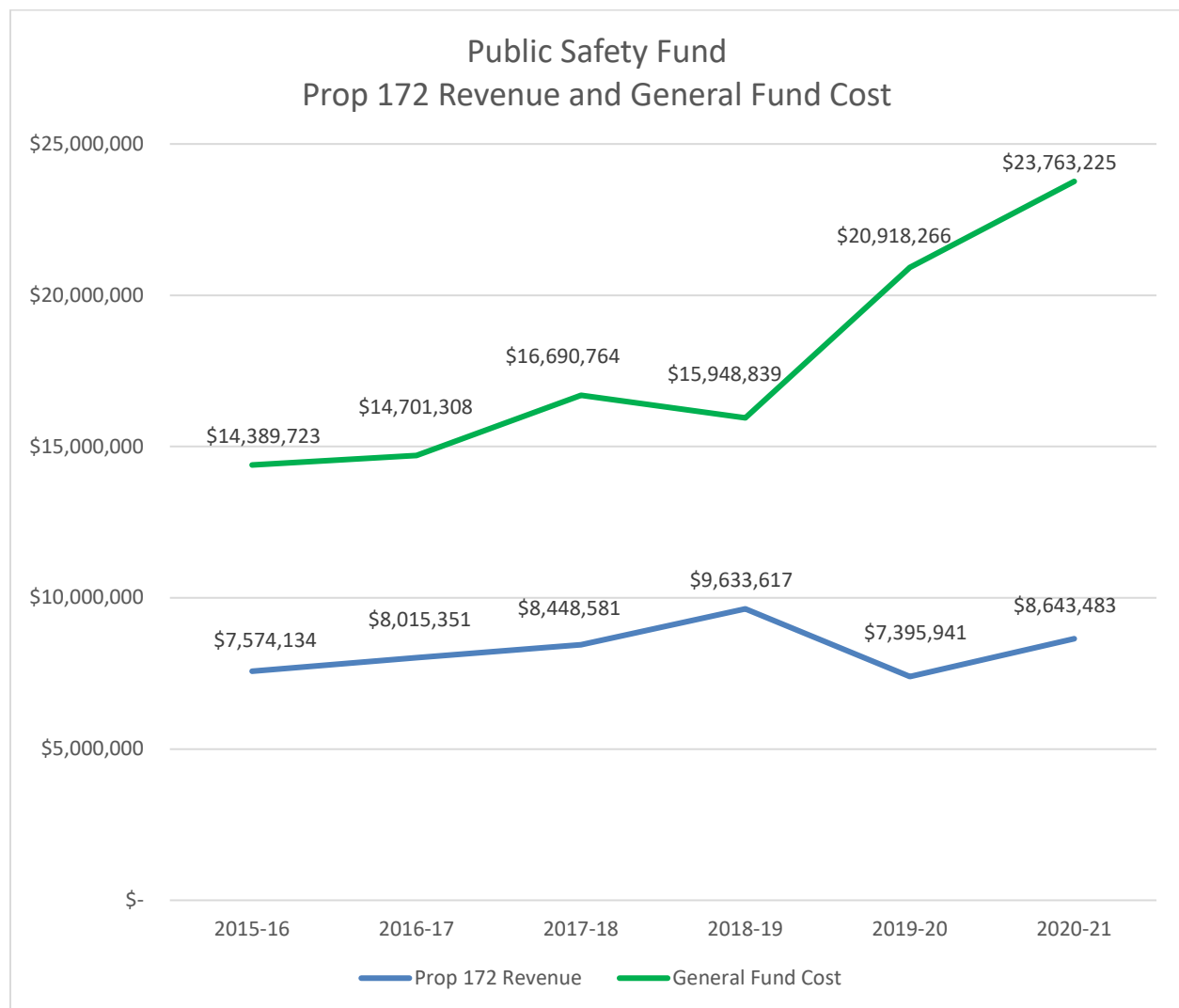
Sutter County contracts with the California Public Employees' Retirement System (CalPERS) for employee retirement benefits. The cost to fund both "Public Safety" and non-public safety ("Miscellaneous") employee group pensions will continue to rise at significant levels, especially with the recent decision by CalPERS to lower the amortization schedule from 30 to 20 years on new assumption changes and significant earnings gains and losses and to lower its anticipated annual investment earnings rate from 7.25% to 7.0%. While the County continues to be able to meet its annual funding contributions to CalPERS, the ability to meet increased rate payments is a major challenge. Pension costs are projected to rise faster than the revenues that support them, so the County's ability to manage the cost without service level reductions is challenging. Staff will continue to monitor this impact and provide regular updates to the Board of Supervisors.



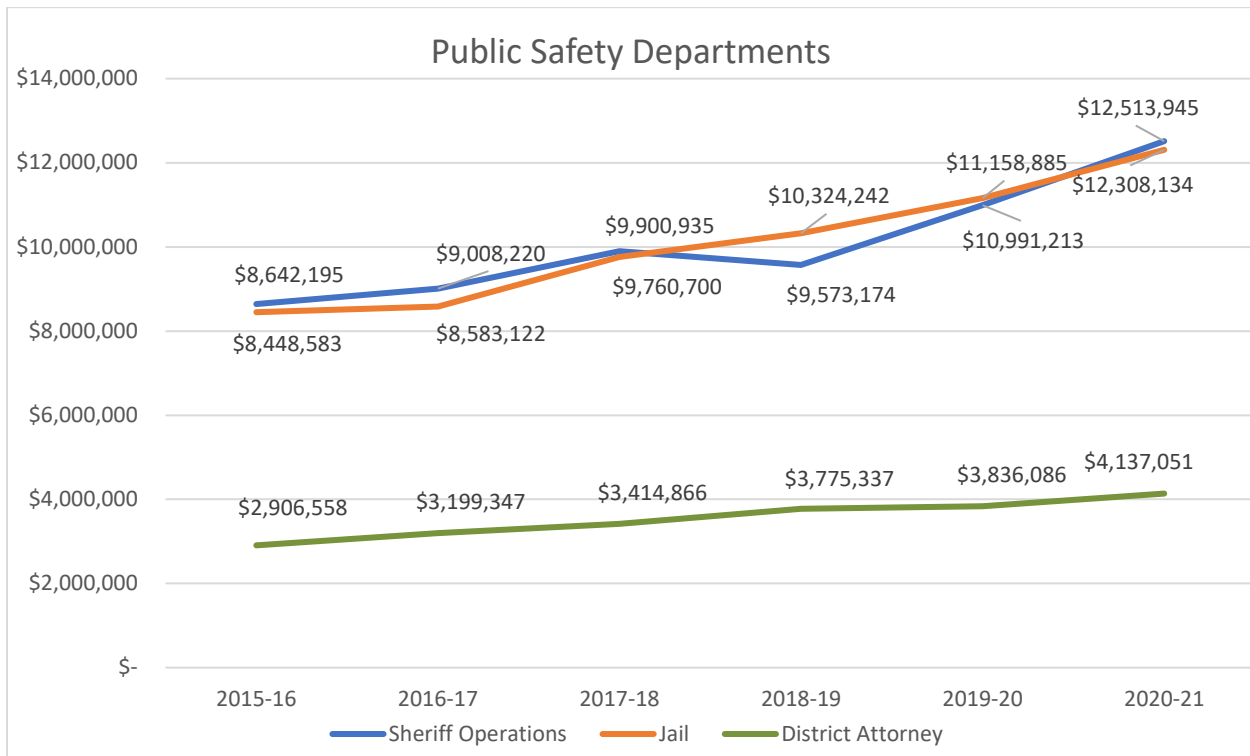
The annual CalPERS payment is made up of two components: normal cost (applied as a percentage of gross wages) and the unfunded accrued liability (UAL) (applied as a set dollar amount). The normal cost is affected as positions are filled or not filled. On the other hand, the UAL is a flat payment that must be made each year regardless of the number of positions filled. The chart above shows the growth in the UAL payment only over the next 10 years. The loss of investment earnings as a result of the current economic crisis will result in higher future cost, but the exact amount will not be known until the County receives its 2019-20 actuarial valuation next year. Over the next five years, however, the County can expect annual year-over-year increases averaging nearly \$1.17 million over the next four years with a reduction of approximately \$2.85 million expected in FY 2025-26.

## Public Safety Fund – Increasing Costs and Reduced Revenue

Funding public safety programs continues to be a challenge. The growth in the County's contribution to the Public Safety fund over the past several years, much of which is not within the County's immediate control, continues to limit resources available for other important areas of government. For FY 2019-20 and FY 2020-21, the problem was exacerbated by the loss of more than \$1.7 million in the half cent sales tax for Public Safety (Prop 172). The two major departments within the Public Safety fund are the Sheriff (including the Jail) and the District Attorney. Both of these departments have worked hard to trim their budgets for FY 2020-21 to lessen the impact on other areas of government. However, funding Public Safety – a Board of Supervisors goal is to maintain its commitment to Public Safety – remains a challenge that will continue into the foreseeable future. The widening gap shown in the graph below reflects the additional discretionary funds that must be used to continue current service levels in Public Safety.



The chart below shows the growth in the three largest sectors of the Public Safety Fund: the Sheriff operations budgets, the Jail (shown separately from other Sheriff budgets), and the District Attorney. Combined the annual Net Cost of these programs has risen by \$9.0 million (44.8%) since FY 2015-16. Individually, the Sheriff operations budgets have increased \$3.9 million (44.8%), the Jail budget has increased \$3.8 million (45.7%) and the District Attorney has increased \$1.2 million (42.3%). The CAO's office continues to work with the Sheriff and District Attorney to look for ways to reduce cost escalation without sacrificing the public's safety.



### Fire Department Funding

Sutter County maintains a small, rural Fire Department, consisting of 22.0 FTE positions, which provides fire protection services to County Service Area F (CSA-F). This expansive area encompasses 254 square miles, including the City of Live Oak, Town of Sutter, and various unincorporated areas from the Butte County line north of the Sutter-Buttes south to Nicolaus Bridge. The Department is funded through a contract with the City of Live Oak and a small, dedicated portion of annual property taxes and a special dedicated fire tax, levied on property owners within the unincorporated portion of County Service Area F. Direct General Fund support of the Fire Department is not routinely provided.

Over time, the County Fire Department has evolved from a small, predominately volunteer department to a larger operation staffed by full-time Firefighters (with full salaries and public safety benefits). The Department has also taken on a greater array of fire related services. As a result, annual recurring expenditures have surpassed recurring revenues which has caused the Department to rely on its fund balance to meet annual expenditure obligations.

The County was successful in securing grant funds to add six full-time fire fighters over the next two and a half years with a small amount of matching funds each year. However, this is only temporary relief for CSA-F

To remain a viable rural fire suppression operation going forward, the Fire Department will have to obtain increased recurring revenues and/or look at further expenditure reductions. Staff explored the possibility of a ballot measure to raise revenue, but data gathered indicated insufficient support in increasing taxes to support fire services in CSA-F to pass a ballot measure. Without additional resources, the Fire Department will have to consider closing a fire station and incurring longer response times for those who reside and work within more remote locations. The Recommended Budget for FY 2020-21 includes use of \$380,084 in fund balance. Although the precise amount of available fund balance will not be known until after the FY 2019-20 books are closed, it is entirely possible that there will not be sufficient funding available. The result is an increased General Fund cost. Given the General Fund's challenges in the future, an ongoing subsidy from the General Fund is not a viable option to continue providing the same level of fire services in this area.

### **Labor Contract Negotiations**

In March 2019, the Law Enforcement Unit and the County agreed to a three-year contract set to expire in June 2021. Salary provisions included a 3.0% salary increase in April 2019, a 3.0% salary increase in July 2019, and a 3.0% salary increase in July 2020 for classifications of Deputy Sheriff, Sheriff's Sergeant Detective, and Senior Criminal Investigator. All other classifications received a non-pensionable lump sum payment equal to 3.0% of the employee's annual base salary in April 2019 and a 2.0% salary increase in July 2019 and a 1.0% salary increase in July 2020. This agreement is set to expire on June 30, 2021, and contract negotiations are anticipated to commence at the end of the current calendar year.

All other bargaining units received a non-pensionable lump sum payment equal to 2.0% of the employee's annual base salary in April 2019 and a non-pensionable lump sum payment equal to 1.0% of the employee's annual base salary in July 2019. The contract for the General, Supervisory, and Professional employees (GSP) and the contract for Probation employees expired on December 31, 2019, and the County has been in negotiations since. The Board of Supervisors, facing the substantial loss of revenue due to COVID-19 was unable to approve a tentative agreement that would have provided a 1% salary increase upon ratification by the Board of Supervisors and an additional 1% on July 1, 2020. The County continues to negotiate in good faith and will respond accordingly as constructive solutions are identified. The Recommended FY 2020-21 Budget does not include any funding for a COLA salary adjustment other than the increase already negotiated with the Law Enforcement Unit.



## **Rising Retirements & Need for Effective Succession Planning (“People Strategy”)**

With increasing numbers of the County’s workforce, finding replacement positions will continue to be a challenge. The labor market throughout the region is highly competitive, especially for managerial, professional, medical, and healthcare positions. As a result, preparing the next generation of County employees is becoming increasingly difficult. This remains true even with advances in technology and the ability to use fewer employees to provide higher levels of service. The Board of Supervisors included developing internal leaders as one of its top six priorities for FY 2020-21. Staff will continue to devote significant time and energy developing and implementing a viable “People Strategy” to make sure the next generation is prepared to move the organization forward.

## **County Facilities Master Plan**

The County owns and/or leases over 30 facilities in different locations throughout the county. Over many years, the County has become a major property owner yet does not have sufficient staff and financial resources to maintain the buildings. This has translated into many facilities suffering from years, and in some cases decades, of deferred maintenance. Several County facilities are severely run-down and the cost to restore and/or repair them is sometimes more than abandoning these buildings and purchasing existing buildings elsewhere.

Recognizing the severity of this situation, in May 2017, the Board of Supervisors approved hiring an outside consultant (Kosmont and Associates) to conduct a review of all County facilities. A report was submitted to the County in October 2017. To build upon the results of the Kosmont report, in December 2018, the Board authorized a new agreement with an architectural firm (Nichols, Melburg & Rossetto, AIA & Associates) to develop the County’s Facilities Master Plan. The architects’ scope of work includes space surveys and departmental interviews to discuss the space needs of each County department. The report will be presented to the Board of Supervisors in 2020, and it will serve as the basis of an AB 1600 Study, so the County can update its Development Impact Fees. The fees allow the County to begin collecting revenue to meet necessary future service needs.

In concept, the County’s plan includes locating all the general administrative and support functions into a main “Government Campus” surrounding the main offices housed at 1130 and 1160 Civic Center Boulevard in Yuba City. In Spring 2019, the County purchased an office building at 1190 Civic Center Boulevard, furthering the Campus plan. The Assessor moved into this building in March 2020, freeing space for the Auditor-Controller and Treasurer-Tax Collector to move into 1160 Civic Center Boulevard by late FY 2020-21.

A “Public Safety Campus” is recommended around the new State Courthouse located at 1175 Civic Center Boulevard and would include the Sheriff’s Office, expanded Jail, District Attorney’s Office, Probation, etc. A Health & Human Services Campus has been recommended at 850 Gray Avenue in Yuba City. Other cluster campuses were recommended for the remaining County uses. Staff is present the Countywide Facilities Master Plan to the Board of Supervisors in July 2020.

In FY 2017-18, the County secured a long-term lease for 850 Gray Avenue to house approximately 250 Health and Human Service employees, or about 25% of the County's workforce. Design of the improvements necessary to house staff and provide services to clients has begun, and County staff is working with an outside financial consultant to obtain financing for construction. The \$19 million Jail Expansion Project was completed in FY 2019-20.

### **State Court Revenues**

In June 2016, the State of California Superior Court implemented a new software revenue collection system, coupled with the Court deciding not to require low-income residents to fully pay fines, which resulted in an annual loss of County General Fund fines and fee revenues of approximately \$900,000. Staff will continue to work with Superior Court staff to ensure that additional future revenue losses are kept to a minimum. A more thorough discussion of this is included in the General Revenues budget (1-209) narrative.

### **Review of Local Revenues, including Development Impact Fees**

With respect to local revenue sources, Sutter County relies on the bare minimum in terms of local taxes, fees, charges, etc. to support local government services provided to the community. There is a wide array of revenue sources that the County does not use. With respect to those revenue sources that the County does have, most are among the lowest in California, are not adjusted annually, and don't keep up with inflation. The County collects fees on qualifying development, but the number of qualifying projects is low. For example, Sutter County usually has fewer than 25 custom homes built in a year. Future development would positively impact revenue and provide needed funding for Public Safety and other vital services. Staff will continue to work on a County-wide fee study with the intent to bring a recommendation to the Board of Supervisors during the budget year or early in FY 2021-22.

In addition, private rental rates for County facilities are very low and involve substantial General Fund subsidies, and, in many cases, rental fees are waived. Going forward, the County may not be able to offer such heavily subsidized facilities for private use.

### **Homelessness**

The rise in the local homeless population (especially within the Feather River river-bottoms and throughout Downtown Yuba City) continues to present profound challenges for the broader community and local economy. As revealed in a recent Yuba City citywide survey, homelessness was, by far, ranked as the community's most serious concern. In response, Sutter County continues to work closely with other local governments and service providers, including the following two bi-county working groups: 1) Bi-County Homeless Consortium; and, 2) Bi-County Homeless Services Program.

In November 2017, the Board of Supervisors adopted a formal Sutter County Long-Term Homeless Management Plan. As a part of implementing this plan, the County has moved forward with building a shelter complex at its Behavioral Health campus located at 1965 Live Oak Boulevard. Construction on this site was completed in September 2019. This

plan was developed in partnership with other regional governments as well as community-based organizations to improve services and shelter operations. As always, the goal remains to address homeless individuals' barriers to stable living and get them into permanent housing.

The County may have the ability to use CARES Act funding to augment homeless programs with the intention of providing long term stable housing that is necessary to prevent COVID-19 transmission.

### **Flood Risk Reduction**

The West Feather River Levee Improvement Project has provided 100-year and 200-year flood protection to most of the Yuba City flood basin, but more work remains. The Board of Supervisors recently approved a joint powers agreement (JPA) between Sutter County, Levee District 1 and Levee District 9. This JPA was established to ensure beneficiaries of flood protection provided by the levees are equally contributing to the cost of maintaining and improving the levees. The levees are not only vital to public safety and flood protection, but they enable lower insurance costs and the ability to procure federally backed loans for construction in FEMA flood mapped areas. Staff will continue to work with the Sutter Butte Flood Control Agency (SBFCA), State Department of Water Resources, U.S. Army Corps of Engineers, local levee and reclamation districts, and other governmental agencies to help maintain and improve the more than 260 miles of levees along the Feather River, Bear River, Sacramento River, and Sutter Bypass.

### **Cannabis and Industrial Hemp Cultivation Ordinance Revisions**

County staff will continue to monitor how other regions of the State respond to the ever-changing area of cannabis cultivation and regulation and now with industrial hemp. Over the past two years, local farmers have started growing industrial hemp, which is used to produce cannabidiol (CBD) oil. While the State has provided some guidance on regulations governing the growing of this cannabis look-alike, the County has been left with the majority of the burden to respond without a funding stream to sufficiently support the cost of Ag Commissioner staff and law enforcement response. The Ag Commissioner will continue to monitor production and State actions related to growth and cultivation and make future recommendations to the Board, if necessary.

### **In-Home Supportive Services, Public Health, & Mental Health Funding**

Staff will continue to monitor changes in State law which seek to reduce State funding for In-Home Supportive Services, Public Health programs, and Mental Health services while increasing eligibility and requiring that the County bargain salary and benefit increases. The cost of increases is borne by the federal and state governments, with a share of cost paid from local Social Services 1991 Realignment funds. With the loss of sales tax revenue, which funds Social Services Realignment, the County could face further challenges with how to fund this growing program. Future updates will be provided to the Board.

## **Sutter Pointe Specific Plan Implementation**

In Spring 2019, developers submitted a proposed first project phase comprising 873± acres located in the eastern portion of the plan area north of Riego Road and south of Sankey Road. This first phase will be called Lakeside at Sutter Pointe and it proposes to establish a total of 3,388 single-family and 399 multi-family homes, along with 44.8 acres of employment centers, 25 acres of commercial centers, 59.1 acres of parkland, 54.8 acres of open space along with up two K-8 schools. The County is reviewing this project for consistency with the adopted Specific Plan and working with developers to establish the necessary public infrastructure and services needed to serve this mixed-use community and to ensure compliance with developer agreements, Sutter County's Federal Incidental Take Permit, and other environmental requirements.

Staff anticipates bringing this project forward for consideration in the second half of 2020 and it is believed that construction of new homes and businesses in this area could commence by the end of 2023 or early in 2024. As directed by the Board of Supervisors, this development is designed to be self-sustaining and to not have any net new costs to taxpayers outside of the plan area. At build-out of the entire 7,500 acre specific plan, Sutter Pointe provides for a maximum of 17,500 housing units, thousands of new jobs, and approximately 50,000 residents.

## **Long-term Financial Planning – Development of a Financial Strategic Plan**

Although staff is submitting a “balanced” Recommended Budget for FY 2020-21, the General Fund continues to experience “structural” challenges. Ideally, recurring revenues should be sufficient to cover recurring expenditures. This is not the case for the General Fund. Instead, the General Fund relies on expenditure “savings” from the prior year to serve as a de-facto revenue (or “source of funds”) to balance the budget for the subsequent year. This is not a “Best Management Practice.”

The County must continually navigate the complex system of federal and state funding and be ever vigilant for funding reductions that will have an impact on local services, in particular those provided to the County's most vulnerable citizens. While the country has sustained years of economic expansion, it is feasible that the nation and state are already in a recession, the depth of which will not be known for some time. Historically, the State has transferred greater financial responsibility onto counties as well as diverting funds from local government in order to close budget gaps. Under Governor Brown, the state was able to build a significant “rainy day fund,” which would help to sustain services in an economic downturn. With the advent of COVID-19 and the associated revenue loss across the state, much of the state's reserves will be used on response and to backfill lost revenue. Thus, the County must look for ways to become financially nimble to address a loss of federal, state and local revenues.

As part of the Board's Top Priority #4, staff continues work to forecast revenues and expenditures over an extended period in order to promote the flexibility to strategically manage resources. A financial strategic plan is being completed and will come to the Board of Supervisors for review and adoption by the fall of 2020. However, much of the substance of the plan is in the “Budget Principles” included in this document.

## Summary

The Recommended FY 2020-21 Budget represents a spending plan that is fiscally responsible and continues to be responsive to the community's needs, despite significant financial challenges in both the current and future budget years. The County's dedicated employees demonstrated their inter-departmental cooperation, commitment to the greater good, and ability to provide the best service levels possible within limited resources. Staff will continue to take proactive steps to ensure the County's long-term financial health.

As a result, it is imperative to convey personal thanks and appreciation to the managerial and financial leadership of the "budget team" including the overall budget preparation leadership of Assistant County Administrator Leanne Link, Deputy County Administrator Annie Liu and Deputy County Administrator Matt Michaelis. Auditor-Controller Nathan Black, Assessor Todd Retzloff and their staff have been tremendous partners with the CAO in preparing this budget. Special appreciation needs to be extended to each of the County's department heads and managers from all departments, Public Information Officer Chuck Smith, and Management Assistant to the CAO Lisa Bush for the key roles they played in preparing and balancing this year's Recommended Budget.

Preparing a complicated and complex local government budget involving 20 departments and over 1,000 employees is a time-consuming and trying process. It would not be possible without the leadership, vision, and support from the organization's governing body—Sutter County Board of Supervisors. Your vote of confidence in staff to prepare for and then implement a wide array of services during a challenging period is greatly appreciated.

Respectfully Submitted,



Steven M. Smith  
County Administrator