



Budget Message

Steven M. Smith
Interim County Administrator

There was a big crowd and a classic early fall sundown for the annual Harvest the Arts Festival on the John Heier farm in Live Oak.



County of Sutter

Office of the County Administrator

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Date: June 25, 2019

To: Honorable Chair & Members of the Board of Supervisors

From: Steven M. Smith, Interim County Administrator

Subject: Recommended FY 2019-20 Budget

On behalf of the County management team, it is my pleasure to submit a balanced Countywide Recommended Budget for Fiscal Year (FY) 2019-20. 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 Five Priorities and Goals

Sutter County policy is guided by a set of five priorities and ten County-wide goals established by the Board of Supervisors. As a policy document, the budget should align with these principles as the foundation of all the services that the County funds. The five top priorities are:

- **Priority #1:**
Leadership – Complete long-term Organizational Strategic Plan; Complete Employee Succession Plan; Empower Executive Team; Develop Employee Engagement Program; Implement Performance Benchmarks/Dashboard Metrics; and, Establish a Board of Supervisors “Executive Committee.”
- **Priority #2:**
Budget/Finance – Prepare long-term Financial Strategic Plan (including a strategy to achieve a structurally balanced General Fund Budget); Ensure FY 2019-20 Countywide Operating & Capital Improvement Plan (CIP) Budget documents comply with GFOA and CSMFO’s Best Management Practices; Complete review to convert to a biennial (two-year) budget process; Prepare Comprehensive Annual Financial Report (CAFR) for FY 2018-19; Provide semi-annual Pension and OPEB Liabilities reports; and, Establish a Board of Supervisors “Finance & Budget Committee.”
- **Priority #3:**
Facilities – Complete Countywide Facilities Master Plan; Complete architectural

design of Health & Human Services Building at 850 Gray Avenue; and, Complete Jail Expansion Project.

- **Priority #4:**
Homelessness – Implement Long-Term Homeless Management Plan; Decide location, configuration, and initial services associated with a temporary shelter facility; and, Partner with other Yuba-Sutter agencies to develop a permanent long-term shelter.
- **Priority #5:**
Sutter Pointe Specific Plan – Continue to work with property owners and developers to process residential, industrial, and commercial development applications; Prepare comprehensive financial, environmental, and public infrastructure analysis to ensure compliance with Sutter Pointe Development Agreement requirements (including high quality development standards); and, Cooperate with applicable outside agencies as part of the due diligence process.

County-wide goals were established on September 11, 2018 for FY 2018-19 and carry forward into the budget year. 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 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 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 County’s workforce will deploy successful succession planning necessary to enable County’s employment base to become more reflective of community’s changing demographics.

In the coming 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.

Status Quo Budget

The Recommended FY 2019-20 Budget represents a basic “status quo” spending plan, which reflects a stable local economy and an organization that is committed to living within its means. Significant financial challenges remain as revenues grow at a rate that is, for the most part, slower than the anticipated growth in normal operating expenses. Additionally, many buildings and equipment items need repair or replacement. The CAO’s Office and County departments worked tirelessly and collaboratively to close a substantial gap between projected revenues and requested appropriations, resulting in a recommended budget that is balanced by reducing operating costs where possible and prudent and with use of reserves only for one-time expenditures. Difficult decisions were made and commendable work was done by the departments to reduce their costs and identify additional revenue. To ensure long-term fiscal stability, the County will have to continue to be focused and will likely have to consider 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 Recommended FY 2019-20 Budget for all funds is recommended at \$374,805,126, which includes \$369,840,275 in appropriations and \$4,964,851 in increases in committed fund balance. Overall, the year over year change from FY 2018-19 is an increase of \$14,518,106. Appropriations are increased by \$17,474,562 (5.0%) from the Adopted FY 2018-19 Appropriations of \$352,365,713. Increases to committed fund balance are decreased by \$2,956,456 (-37.3%) from the FY 2018-19 Adopted Budget. The following table illustrates the allocation among the funds, including the largest operating departments:

No.	Fund	Adopted FY 2018-19	Recommended FY 2019-20	Change	
				Dollars	Percent
1.	General	\$72,559,872	\$69,587,211	(\$2,972,661)	(4.1%)
2.	Welfare/Social Services	57,962,890	54,520,851	(3,442,039)	(5.9%)
3.	Bi-County Behavioral Health	38,770,315	48,288,252	9,517,937	24.5%
4.	Public Safety	36,130,517	36,644,094	513,577	1.4%
5.	Health Services	14,087,183	15,005,775	918,592	6.5%
6.	Road	13,203,202	13,133,246	(69,956)	(0.5%)
7.	Trial Courts	10,772,602	10,873,760	101,158	0.9%
8.	Capital Projects	9,172,114	7,754,095	(1,418,019)	(15.5%)
9.	Information Technology ISF	4,517,578	5,677,697	1,160,119	25.7%
10.	Child Support Services	2,989,784	3,014,922	25,138	0.8%
11.	Fleet Management ISF	1,044,567	1,135,455	90,888	8.7%
	Other Funds	99,076,396	109,169,768	10,093,372	10.2%
	TOTAL	\$360,287,020	\$374,805,126	\$14,518,106	4.0%

Of the \$14,518,106 increase in the Recommended FY 2019-20 Budget, \$6,994,490 (40.0%) represents adjustments in the following funds managed by the Health & Human Services Department:

- Bi-County Behavioral Health Fund – Increased by \$9,517,937
- Health Services Fund – Increased by \$918,592
- Welfare/Social Services Fund – Decreased by \$3,442,039

The largest single budget adjustment (\$9,517,937) exists within the Bi-County Behavioral Health Fund. The department has seen significant growth in the number of clients receiving mental health and substance use disorder services. The growth in the budget includes a \$2.3 million increase in Salaries and Benefits due to the addition of 20 new positions and normal salary and benefit increases, a \$3.2 million increase in professional and specialized services for the care of clients and software license costs related to the Electronic Health Record System, and \$1.8 million in Other Charges mainly due to a substantial increase in Support and Care of Persons, which includes treatment and in-patient hospitalization. The increase is offset by additional federal and state (including Realignment and Mental Health Services Act) revenues and use of restricted fund balance. This increase does not affect the General Fund.

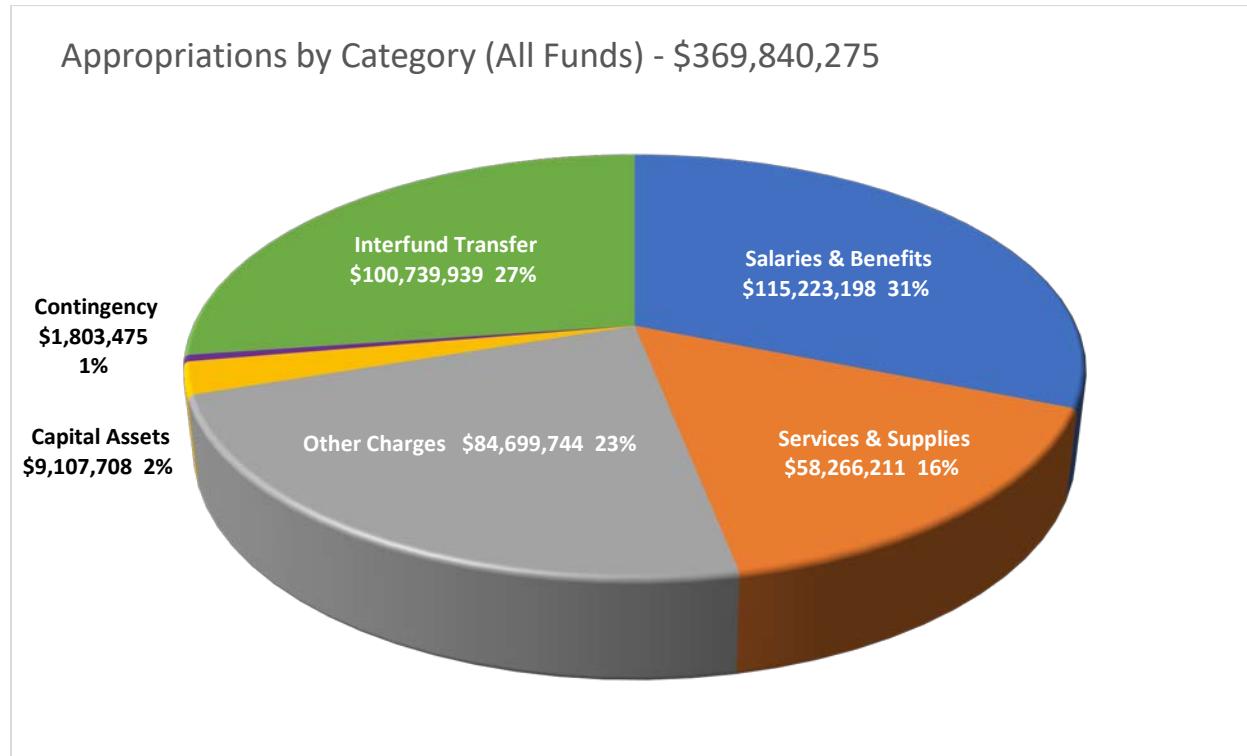
The rise in Health Services Fund costs (\$918,592) is largely related to moving several positions out of other Health and Human Services budgets and into the Administration budget where the cost can be more equitably distributed throughout all Health, Behavioral Health and Social Services budgets. Federal and State funding covers the majority of these costs.

The decrease in the Welfare/Social Services fund is the result of decreasing foster care payments as fewer children are placed in care. These payments are funded with federal and state funds as well as Realignment dollars.

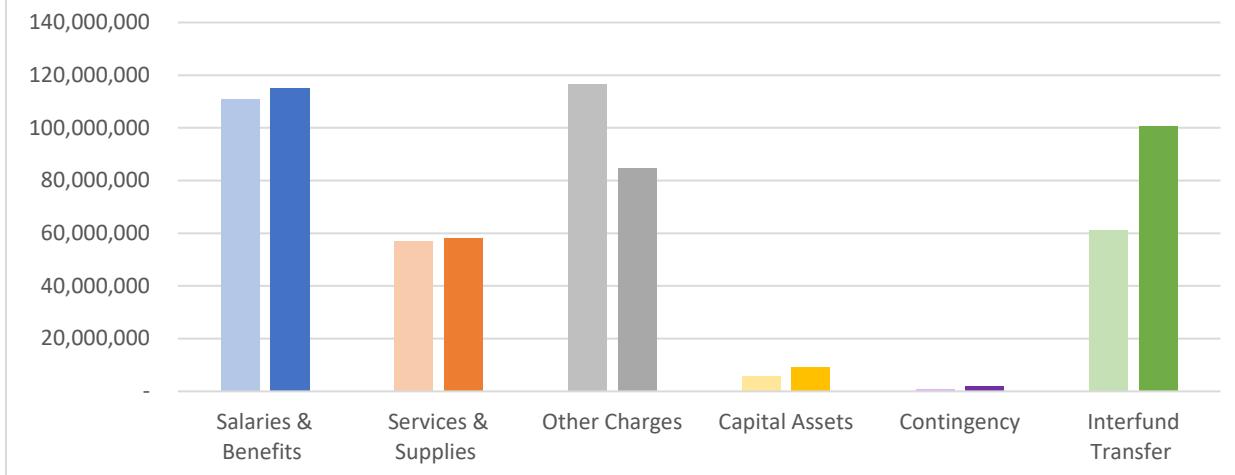
The \$513,577 increase in the Public Safety fund is obscured by a \$2.7 million increase in committed fund balance that occurred in FY 2018-19 and is not budgeted in FY 2019-20. If that were eliminated, Appropriations would have increased by approximately \$3.3 million. The increase required an addition of \$1.13 million in General Fund contribution, bringing the total General Fund cost to \$21,268,432, a 5.6% increase from the FY 2018-19 Recommended Budget.

The \$1.4 million reduction in the Capital Projects fund is due to completion of capital projects such as the Jail Expansion in FY 2018-19 and a reduction overall in new capital projects due to budget constraints.

The charts below illustrate County recommended appropriations across all funds.



Comparison of Major Expenditure Categories - All Funds FY 218-19 to FY 2019-20

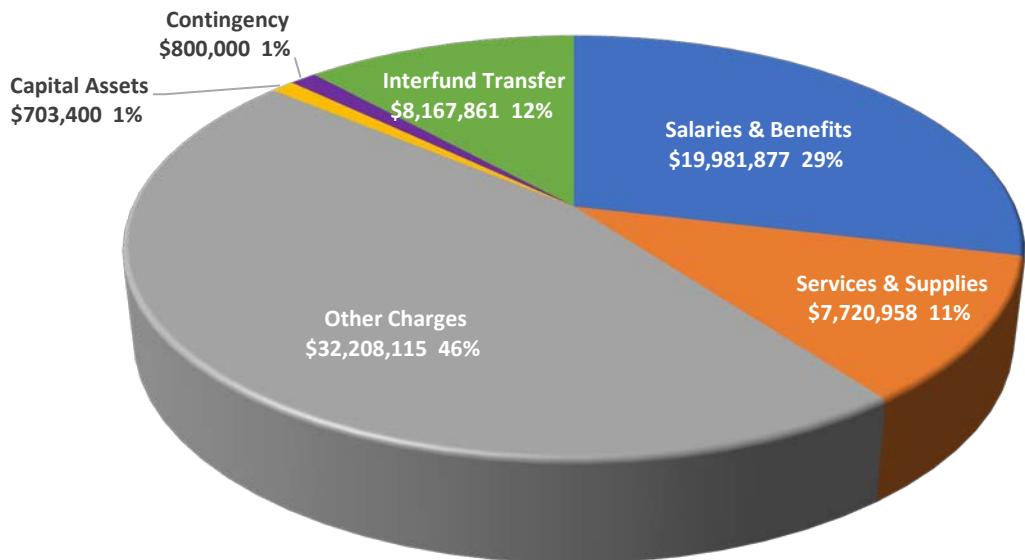


Budget Overview – General Fund Budget

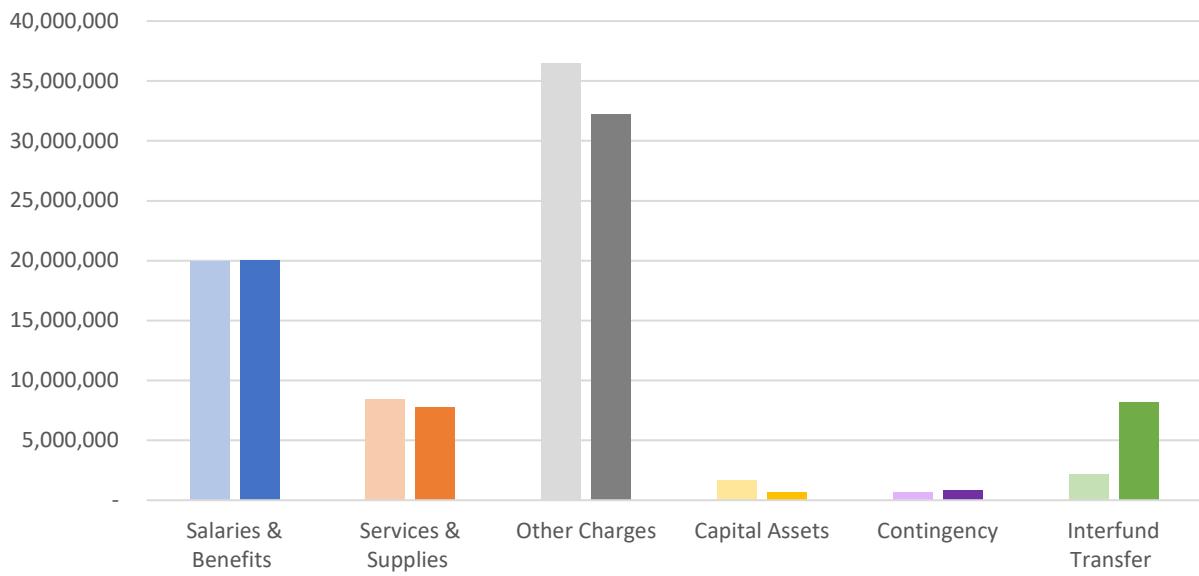
Appropriations in the General Fund are recommended at \$69,582,211, an increase of \$178,315 (0.26%) over FY 2018-19. A planned commitment of fund balance of \$5,000 brings the total Recommended General Fund Budget to \$69,587,211.

Salaries and Benefits increased by \$49,940 (0.25%). General Fund salaries and benefits increased substantially for FY 2019-20, but the increase was offset by approximately \$303,000 in an assumed vacancy factor and elimination or un-funding of positions, strategies used to balance the budget. Services and Supplies decreased by over \$700,000 (8.5%) mostly due to budget-balancing strategies. Other Charges decreased by \$4.3 million (11.7%), while Interfund Transfers increased by \$6.0 million (276%) mainly due to appropriations reclassified from one spending category to another. The Other Charges category includes transfers from the General Fund to other funds such as the transfers to the Public Safety, Trial Courts and Health Funds. Capital Expenditures decreased by nearly \$1 million due to a reduction in capital projects and planned one-time purchases and projects budgeted in FY 2018-19 being completed during that fiscal year.

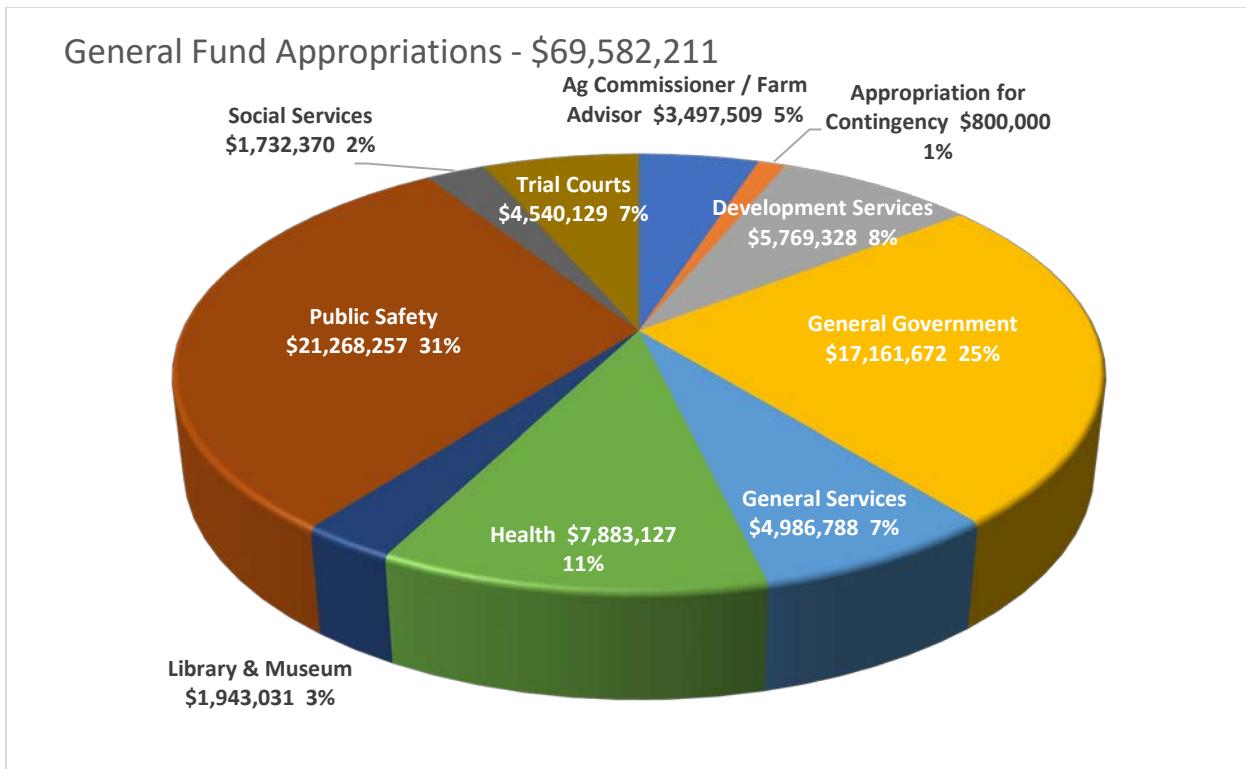
General Fund Appropriations by Category - \$69,582,211



Comparison of General Fund Expenditure Categories FY 2018-19 to FY 2019-20



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 next chart shows the variety of programs directly supported by General Fund dollars.



As a policy document, the General Fund budget shows many areas where the County places emphasis. For example, the chart above shows the largest share of funding (\$21.3 million – 31%) 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 \$4.5 million (6%) 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 \$17.1 million (25%), 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 the cost of Worker's Compensation and Liability Insurance and contracts for county-wide services. Much of this cost is recovered through the County's A-87 Cost Plan, which allocates cost to all programs, including those funded by federal, state and outside sources.

Development Services (\$6.0 million – 9%) includes the County Planning, Building and Environmental Health services. General Services includes Building and Grounds maintenance, 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 to the Health fund helps to cover the cost of Public Health communicable and chronic disease prevention and control, as well as the cost of jail medical services. Funding for the Sutter County Library and Sutter County Museum invests in services to promote education and enrich the County of Sutter

community. Funds appropriated for the Agricultural Commissioner and the Farm Advisor ensure that services are available to support our substantial local agriculture resource. The contribution to Social Services/Welfare supports a small County share of cost for services primarily funded by federal and state funds and funds a portion of the cost of the General Relief and Public Guardian programs as well as Veteran's Services. Finally, an appropriation for Contingencies of \$800,000 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.

Countywide Staffing

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

No.	Department/Office	Revised FY 2018-19	Recommended FY 2019-20	Change
1.	Health and Human Services	511.75	532.75	21.00
2.	Sheriff	146.00	148.00	2.00
3.	Development Services (Includes Roads & Fire)	71.00	75.00	4.00
4.	General Services	58.00	57.00	(1.00)
5.	Probation	47.00	47.00	0.00
6.	District Attorney	32.00	32.00	0.00
7.	Child Support Services	28.00	28.00	0.00
8.	Agricultural Commissioner	19.00	19.00	0.00
9.	Assessor	17.00	17.00	0.00
10.	County Clerk-Recorder	14.75	14.75	0.00
11.	Auditor-Controller	12.45	12.45	0.00
12.	Library	12.15	12.15	0.00
13.	Human Resources	10.45	11.45	1.00
14.	Treasurer-Tax Collector	9.00	9.00	0.00
15.	County Administrator's Office	8.00	8.00	0.00
16.	Board of Supervisors	6.00	5.50	0.00
17.	County Counsel	5.50	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
	TOTAL	1,013.10	1,040.10	27.00

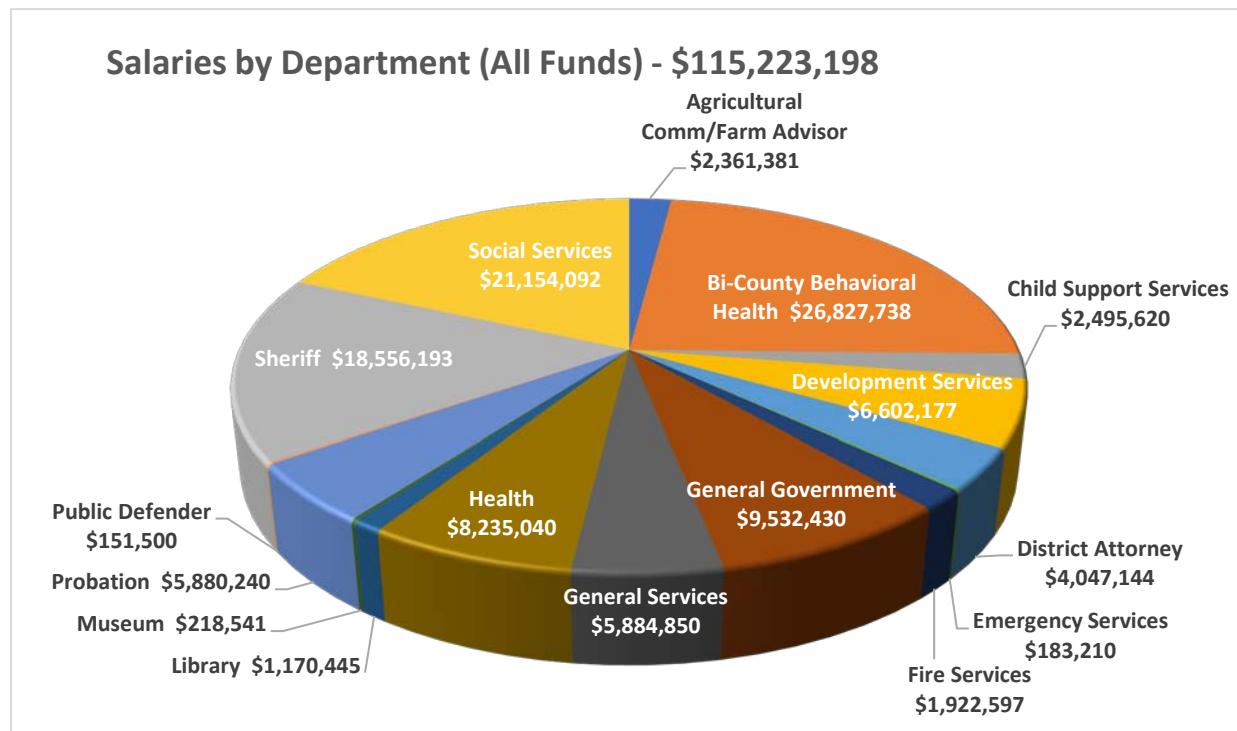
The overall number of County FTE positions is proposed to increase from 1,013.10 to 1,040.10. This represents an adjustment of 27.00 positions (or 2.7%) and is largely due to an increase of 21.0 FTE non-General Fund positions located in the Health and Human Services Department, fully funded by Federal and State sources. Within the General

Fund departments, there is a net of zero positions added. One 1.00 FTE position in General Services was eliminated, and one 1.00 FTE position in Human Resources was added, also fully supported by Health and Human Services funds. Within the Roads Fund, 4.00 FTE positions were added, which are supported with new SB 1 funding. Within the Sheriff's budget, 2.00 FTE positions were added.

- Transfer of 1.00 Deputy Director of Health & Human Services from Welfare Administration (5-101) to Health & Human Services Administration (4-120)
- Transfer of 1.00 FTE Executive Secretary I from Behavioral Health Services (4-102), 1.00 FTE Executive Secretary Executive Secretary I from Public Health (4-103), and 1.00 FTE Secretary I from Welfare Administration (5-101) to Health & Human Services Administration (4-120)
- Addition of 3.00 FTE Crisis Counselor to Behavioral Health (4-102)
- Addition of 1.00 FTE Intervention Counselor to Behavioral Health (4-102)
- Addition of 1.00 FTE Medical Clerk to Behavioral Health (4-102)
- Addition of 2.00 FTE Mental Health Therapist to Behavioral Health (4-102)
- Addition of 10.00 FTE Mental Health Worker to Behavioral Health (4-102)
- Addition of 2.00 FTE Psychiatric LVN/Technician to Behavioral Health (4-102)
- Addition of 1.00 FTE Mental Health Staff Nurse to Behavioral Health (4-102)
- Elimination of 1.00 FTE Account Clerk in Welfare Administration (5-101)
- Addition of 1.00 FTE Social Worker Adult Services Flex 1-2 to Welfare Administration (5-101)
- Addition of 1.00 FTE Social Worker Adult Services to Welfare Administration (5-101)
- Addition of 2.00 FTE Community Services Officer positions to the Sheriff-Coroner budget (2-201)
- Addition of 4.00 FTE Public Works Maintenance Worker I/II positions in the Roads Fund (fund 0003)
- Elimination of 1.00 FTE Network Administrator I/II from the Information Technology ISF (8-145)

- Transfer of 0.20 Deputy Clerk Recorder and 0.05 FTE Supervising Deputy Clerk Recorder from the Recorder budget (2-706) to the County Clerk budget (2-710)
- Addition of 1.00 FTE Senior HR Analyst in the Human Resources budget (1-401)
- Reclassification of a 1.00 FTE HR Assistant to a 1.00 FTE HR Assistant / HR Analyst I in the Human Resources budget (1-401)
- Transfer of 0.10 FTE of the Human Resources Director from Human Resources (1-401) to the Liability Insurance ISF (4-590)
- Transfer of 0.10 FTE of the Assistant Director of Human Resources from the Worker's Comp ISF (4-591) to the Liability Insurance ISF (4-590)
- Transfer of HR Analyst flexibly staffed position 0.75 FTE from the Human Resources budget (1-401) and 0.05 FTE from the Worker's Comp ISF (4-591) to the Liability Insurance ISF (4-590)
- Transfer of 0.30 FTE Supervising Account Clerk from the Treasurer-Tax Collector (1-202) to the Office of Revenue Collection (1-204)

The cost of personnel is spread among numerous departments within many of the County's funds. Total personnel cost is recommended at \$115,223,198, an increase of \$4,487,955 (4.0%) over FY 2018-19. While rising personnel costs are included, the recommended appropriations are reduced by a 3% vacancy factor, explained later in this message, to account for normal attrition in positions.



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 under 67,000 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 2019-20, the CAO's office directed departments to turn in "status quo" budgets, meaning not adding positions that were not supported by outside funds and keeping other expenditures consistent with the current fiscal year. Once all requests were in, the budget for FY 2019-20 had a deficit of more than \$4 million. Working together, County Department Heads, along with CAO staff, closed the gap using a variety of means, some temporary and some more permanent. Below are a few of the strategies that were necessary to balance the FY 2019-20 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 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%. This produced savings of approximately \$1.3 million. No positions were eliminated, and the departments should be able to stay well within their overall Salary and Benefits appropriation levels. This is, however, a one-time fix that will result in lower fund balance available at the end of the year to carry forward to balance future years' budgets. Thus, the vacancy factor will have to be budgeted each year going forward.
- Eliminating unfilled positions. General Services (Information Technology Internal Service Fund – 4-581) eliminated a vacant Network Administrator, and Development Services (Engineering Services 1-920) un-funded two vacant Engineer positions.
- Closing the Wellness Center. The Wellness Center costs approximately \$800,000 per year to operate, of which approximately \$400,000 is a direct General Fund Cost. The Recommended Budget eliminates funding for the Wellness Center, although \$100,000 remains in the budget for an alternative wellness program.
- 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.
- 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.

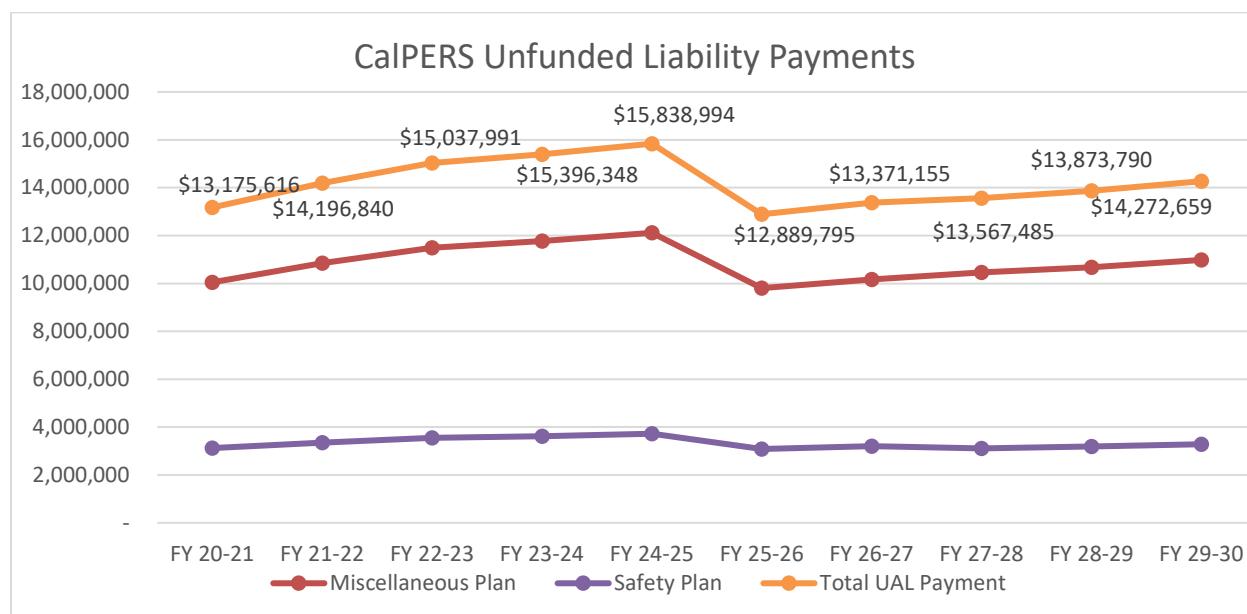
A sample of the immediate and near-term budget challenges confronting the County include the following:

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, it will be imperative for Sutter County and Yuba City to work together 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 (including setting aside small amounts of additional funds to invest each year), the organization’s ability to meet increased rate payments is a major challenge. Staff will continue to monitor this impact and provide regular updates.



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 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 only over the next 10 years. The change in the assumption for investment earnings as well as the change in future amortization schedules will increase the annual UAL payment shown above, but the exact amount will not be known until the County receives its 2017-18 actuarial valuation later this year. Over the next five years, however, the County can expect annual year-over-year increases averaging nearly \$800,000.

Fire Department Funding

Sutter County maintains a small, rural Fire Department, consisting of 17.0 FTE positions, which provides fire protection services to County Service Area 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 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. If this situation does not reverse course soon, it is likely that the fund balance will be depleted.

In order 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. Without additional resources, the Fire Department may 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 2019-20 includes use of nearly \$110,000 of the estimated \$290,000 remaining fund balance, leaving less than \$200,000 to support future years' services. Staff will continue to review this situation and provide regular updates.

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 will receive a 2.0% salary increase in July 2019 and a 1.0% salary increase in July 2020.

All other units received a non-pensionable lump sum payment equal to 2.0% of the employee's annual base salary in April 2019 and will receive a non-pensionable lump sum payment equal to 1.0% of the employee's annual base salary in July 2019. Agreements are set to expire in December 2019. Negotiations were scheduled to begin in June 2019. The Recommended FY 2019-20 Budget does not include any funding for a COLA salary adjustment and will be subject to labor negotiations.

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

In FY 2017-18, the County implemented an early retirement incentive program. With increasing numbers of the County's workforce retiring (not only due to this program, but also the general aging of the 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. 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 more than abandoning these buildings and purchasing existing buildings elsewhere, along with purchasing raw land and building new facilities.

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. Completion of their report is anticipated in Fall 2019, and it will serve as the basis of an AB 1600 Study, so the County can update its Development Impact Fees. The increased fees will allow the County to begin collecting revenue to fund necessary future expansion 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. This building

will house the Assessor's Office within the budget year, freeing space for the Auditor-Controller and Treasurer-Tax Collector to move into 1160 Civic Center Boulevard by late FY 2019-20 or early in 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 was recommended at 850 Gray Avenue in Yuba City. Other cluster campuses were recommended for the remaining County uses. Staff is working on a more formal Countywide Facilities Master Plan to be submitted to the Board of Supervisors at a later date.

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 will be completed by the end of FY 2018-19. Future plans include completing the improvements to 1190 Civic Center Boulevard to make the building efficient for the Assessor's functions, completing the second-floor remodel of 1160 Civic Center Boulevard to accommodate the Auditor-Controller and Treasurer-Tax Collector, and continuing to review potential relocation sites for Child Support Services.

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's Development Impact Fees, for example, are limited and are significantly below the cost necessary to support development approved, and are not regularly collected. In addition, private rental rates for the County facilities are very low and involve substantial General Fund subsidies. Going forward, County will unlikely be able to offer such heavily subsidized facilities for private use. Staff presented a revised fee schedule for many County fees during FY 2018-19 and will continue to review existing revenues and make recommendations to the Board of Supervisors once resulting revenue levels are known.

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 will begin on this site early in FY 2019-20 and is expected to be operational 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.

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. 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. With the number of legal and illegal cannabis grows rising across the State, the street price of cannabis continues to drop at significant levels. This is translating to lower than estimated revenue streams for local governments that assess taxes and charge fees. As a result, anticipated new revenue sources associated with this issue will likely not be as lucrative as previously anticipated. There are also potential significant General Fund cost increases and societal impacts.

More recently, local farmers have started growing industrial hemp, which is used to produce cannabidiol (CBD) oil. To date, the State has failed to implement regulations governing the growing of this cannabis look-alike, so the County is left without guidelines for local inspection and oversight. 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. 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 proposes to establish 3,402 single-family and 399 multi-family homes, along with 46.1 acres of employment centers, 25 acres of commercial centers, 61.3 acres of parkland, 54.9 acres of open space along with a K-8 school. 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.

It is possible that construction of new homes and businesses in this area could commence within two to three years, as the Sacramento regional economy continues to expand. 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 full build-out, this development will contain 17,500 housing units, thousands of new jobs, and approximately 50,000 residents.

Long-term Financial Planning – Development of a Ten-Year Financial Strategic Plan

Although staff is submitting a “balanced” Recommended Budget for FY 2019-20, 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. The country has sustained 10 years of economic expansion, and it is feasible that the nation could face a recession within the next few years. 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. However, 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 #2, staff continues work to forecast revenues and expenditures over an extended period in order to promote the flexibility to strategically manage resources.

Summary

The Recommended FY 2019-20 Budget represents a spending plan that is fiscally responsible and continues to be responsive to the community's needs. 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 Deputy County Administrator Matt Michaelis, Principal Administrative Analyst Annie Liu and Extra Help Assistant CAO Leanne Link. Auditor-Controller Nathan Black and his staff have been tremendous partners with the CAO in preparing this budget. Special appreciation needs to be extended to each member of the County's Executive Team, managers from all departments, Public Information Officer Charles 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,

A handwritten signature in blue ink, appearing to read "S.M. Smith".

Steven M. Smith
Interim County Administrator

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