



BUDGET MESSAGE



County of Sutter

Office of the County Administrator

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Date: June 10, 2025

To: Honorable Chair & Members of the Board of Supervisors

From: Steven M. Smith, County Administrator

Subject: Recommended FY 2025-26 Budget

On behalf of the County leadership team, I am submitting a balanced Countywide Recommended Budget for Fiscal Year (FY) 2025-26. This document includes estimated revenues/sources of funds and recommended appropriations for both the Operating Budget and Capital Improvement Program (CIP) Budget.

The FY 2025-26 Sutter County Recommended Budget focuses on the myriad services that Sutter County delivers, most of which are provided across all areas of the County. Balancing the General Fund budget continues to be challenging with escalating costs that outpace revenue growth. The County simply cannot sustain the level of services that the community demands within the resources we have available. We continue to ask departments to submit budgets with little or no growth in County General Fund contribution. The physical constraints of the County hinder its ability to attract and develop new commercial industry and housing and the ability to increase revenues. To match costs to available resources, County departments continue to limit expenditures, hold positions vacant for extended periods, and defer capital asset purchases and building maintenance projects. These savings have been achieved in both FY 2023-24 and FY 2024-25, providing funding to support some ongoing operations, but mostly allowing the County to stabilize its financial condition and, most importantly, live within its means. The Board of Supervisors fully embraces the concept that we don't spend money we don't have.

The state continues to be an unreliable partner in finalizing a budget before the start of the new fiscal year, reminding us of prior years when state budgets were not adopted until September or even October. State budgets are now adopted on time, but often with little detail, and trailer bills, coming sometimes a month or more after state budget adoption, provide specifics on funding to local governments well after the start of the new fiscal year.

For decades, the federal government has been a reliable partner in providing funding for a host of programs that benefit local individuals, families, farms, and other businesses.

Commerce in Sutter County relies heavily on significant federal funding, some of which may be in jeopardy. Reductions in federal funds that support medical insurance, food assistance, rent subsidies, communicable disease control and prevention, children's health, behavioral health services and many other programs are on the horizon or are already here. Any significant cuts to these programs will impact local businesses, who rely on the income that stays in our community.

Sutter County has a longstanding policy to not backfill the loss of funding in state and federal programs. If we continue forward as though we believe funding is going to be in place as of July 1 and then funding is cut at either the state and/or federal level, we will have a financial hole that will be difficult to close. The County cannot be expected to simply "eat" the cost by subsidizing with General Fund dollars; we simply do not have the means. We have considered potential cuts but cannot accurately predict precisely what will happen at the state and federal level. Thus, the Recommended Budget represents what we know now about state and federal funding. As we learn more, we will return to the Board with adjustments, when necessary, to re-align expenditures with available revenues.

In issuing budget instructions for FY 2025-26, the County Administrator's Office directed departments to submit budgets with virtually no increase in cost. This instruction is not unique to FY 2025-26; it has been in place for years. Most departments strive to meet this by incrementally reducing filled positions and, by extension, reducing services. As a recently retired department head put it, "it's death by a thousand cuts." The budget balancing cuts this year don't encompass the entirety of reductions, as departments have been "belt tightening" for years. The reductions result in slower response times, reduced operating hours and days, longer wait times, reduced resources to address homelessness, and, potentially, elimination of some services entirely. Departments have strived to increase outside funding through obtaining grants, but grants rarely pay for existing programs and services and are not necessarily a reliable funding source in the longer term.

Of particular concern is County Service Area – F (CSA-F), which provides fire and emergency response services in unincorporated areas in the northern, western, and southern parts of the County, as well as the City of Live Oak through a contract for services. Initially funded by property tax increment and a special fire tax, this dependent special district's costs have outpaced dedicated revenues for a decade and its remaining fund balance has been nearly exhausted. For the past five years, CSA-F has relied on the General Fund and other County discretionary dollars to supplement equipment purchases and, most recently, operating costs. Beginning in FY 2019-20 Sutter County has provided funding to augment resources to keep fire stations operational using federal COVID-19 monies. This funding was intended to be one-time and not a guarantee of future support. The County now faces the fundamental question of whether to further divert discretionary dollars to benefit a district of approximately 20,000 people or maintain crucial services that meet the needs of the entire population of the County. This is not to say that the services provided by CSA-F are not extremely valuable. They are. However, CSAs C and D, which serve the communities of East Nicolaus and Pleasant Grove, provide services through volunteer firefighters and are financially solvent because the demands for service are matched to the existing resources. These special districts, while

also overseen by the Board of Supervisors, do not place a significant demand on resources other than those generated in their respective geographic areas. CSA-F's financial model remains unsustainable. It's important for the community to grasp the enormity of this problem and for the County to propose a permanent solution. In 2022, the County proposed a 1% sales tax measure, which would have solved CSA-F's funding problem. However, this measure was not passed by the voters.

The FY 2025-26 Recommended Budget includes \$518.3 million in appropriations that allow our departments to serve this community. Whether a person lives or operates a business in Sutter, Nicolaus, Robbins, Meridian, Live Oak or Yuba City, all residents of the County receive the benefit of County services. Sutter County serves everyone. County-wide, we conduct elections, issue marriage licenses, register births and deaths, provide technical support to our agriculture industry and ensure accuracy of gas pumps, scales for measuring weight, and electronic pricing. We provide the property tax assessments and distributions for our local governments and schools, record real estate transactions and other property documents, and assist families with collection of child support payments. All criminal prosecution is handled by our District Attorney, and incarcerated individuals are housed in the Sutter County jail. We provide educational and cultural services through our County Library system, as well as the Sutter County Museum. Our Probation Department is responsible for adults and juveniles who have been through the criminal justice system and need supervision to avoid reoffending, keeping our entire community safer. Our Health and Human Services programs provide behavioral health, communicable and chronic disease prevention and education, and protective services for our most vulnerable populations. Health and Human Services also provides eligibility services for CalWORKs, Medi-Cal, Women Infants and Children Supplemental Nutrition Program (WIC), and Cal-Fresh benefits, increasing resources and directly benefitting our local economy. Outside the city limits of Yuba City, we are responsible for law enforcement and fire response for much of the County. In the unincorporated areas of the County, we provide municipal services such as construction permitting, water systems, flood prevention and many other services that ensure safety and prosperity. Our Roads department maintains all County roads, many of which have become important transportation arteries for commerce. We serve everyone, and we provide quality services despite significant financial constraints. The health, safety, and economic security of all our residents remains our highest priority, and the FY 2025-26 budget continues to reflect that commitment.

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 August 24, 2021, the Board of Supervisors adopted its Goals and Priorities for FY 2021-22, which have been carried over through FY 2025-26. As needed, the Board updates its Goals and Priorities periodically. The Board's adopted Priorities are:

1. Leadership

Sutter County is committed to the continued development of a strong leadership culture at all levels of the organization.

- A. Continue and expand leadership training opportunities for staff at all levels of the organization (e.g., NACo leadership program; CSAC Senior County Executive Credential Program).
- B. Pursue and develop cost-effective wellness opportunities for County employees.
- C. Develop a county-wide customer service philosophy and integrate it into department culture.
- D. Develop a governance manual to be adopted by the Board of Supervisors to define and sustain a culture of respect across all County functions.

2. Economic Development

Sutter County actively pursues economic development opportunities.

- A. Successfully recruit and hire an Economic Development Manager position after a job specification is created and adopted.
- B. Establish specific goals and measurable outcomes for County Economic Development efforts including business attraction and retention, business recognition program.
- C. Continue to advocate with state and federal agencies for reasonable development rules relating to flood plain management including building a coalition of jurisdictions to maximize effectiveness of advocacy efforts.

3. Homelessness

Sutter County efforts minimize the impact homelessness has on the quality of life in our communities.

- A. Conduct joint Board of Supervisors/City Council public meetings to discuss homelessness, progress, and goals.
- B. Partner with City of Yuba City and local organizations to ensure long-term viability of homelessness services.
- C. Determine need for additional homeless-related resources, such as housing and services.

4. Facilities

Sutter County facilities are safe, accessible, and efficient.

- A. Analyze remote work possibilities for each department, including financial, logistical and service issues.
- B. Analyze future space needs, including consideration of remote work options and present information to the Board of Supervisors as part of the Facilities Master Plan.
- C. Continue facility consolidation efforts including the Gray Avenue property.
- D. Present recommendations for major facility upgrades and repairs that are possible within available resources.

5. Development (formerly “Sutter Pointe”)

Sutter County development is planned and thoughtful to maintain and enhance attractive and viable residential, commercial, and industrial development.

- A. Prioritize General Plan amendments to align County policy with community needs.
- B. Continue working productively with Sutter Pointe residential developers to ensure timely, quality development.
- C. Pursue land entitlement options for additional commercial and industrial development, including within Sutter Pointe.

6. Public Safety

Sutter County continues its commitment to the safety of the public, including finding viable solutions for fire services in the unincorporated areas.

- A. Assist with and analyze fire services review from LAFCo consultant to better understand district consolidation opportunities and challenges.
- B. Conduct public meetings to discuss County fire services funding challenges and potential solutions.
- C. Develop a long-term plan for sustainable fire services.

County-wide goals were first established on September 11, 2018 and were last discussed by the Board on August 24, 2021. These Goals continue to be relevant to the County and are incorporated into County activities for the budget year. The existing Goals are:

- A. Provide local government leadership that 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 a 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); 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 the Sutter Pointe Specific Plan.

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 dollars, including General Fund resources.
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.

Financial Policies – Reserves and Long-Term Liabilities

On May 27, 2025, the Board amended Administrative Policy #504 *Budget and Financial Management*, which lays out specific requirements for management of the County’s finances. Key among the policies are the requirements to fund reserves, including the General Reserve and a Budget Stabilization Reserve, as well as pay down long-term liabilities such as pension liability and other post-employment benefit (OPEB) liability. For FY 2025-26, the General Reserve and Budget Stabilization Reserve are fully funded to the level recommended by the Government Finance Officers Association (GFOA) and incorporated into the Budget and Financial Management policy. Combined, reserves total over \$12.5 million, an increase of \$11.4 million since FY 2019-20, providing a hedge against unforeseen negative economic conditions and ensuring sufficient General Fund cash flow throughout the year.

The FY 2025-26 Recommended Budget reinstates the \$1 million annual payment to the County's Internal Revenue Code Section 115 Pension Prefunding Account with Public Agency Retirement Services (PARS) and \$100,000 to the Other Post Employment Benefit (OPEB) account that were cut from the Recommended Budget for FY 2024-25. Last year's reduction was necessary to avoid further decreases in services but was inconsistent with the County's policy. Using excess funds available with the closure of FY 2023-24 books, the \$1.1 million payment was appropriated in May 2025 in time to be paid during FY 2024-25.

Finally, the Recommended Budget includes \$1.08 million in the Appropriation for Contingency. This is a \$260,903 (-20.6%) decrease from the FY 2024-25 Recommended Budget. The Appropriation for Contingency is used to minimize the General Fund impact of significant costs that were not anticipated when the Recommended Budget was developed or adopted by the Board of Supervisors. With fully funded reserves, the County does not have to be as reliant on a contingency appropriation. The level proposed in the Recommended Budget is consistent with use in prior years.

Commitment to Transparency

The Recommended Budget is published in early June ahead of a June 10, 2025 presentation by the County Administrative Office staff to introduce the budget. The Board will be asked to tentatively approve the Recommended Budget on June 24, 2025. In conformance with Government Code Section 29064, tentative Budget Approval is a formal action taken by the Board to allow continuation of County services without interruption until the final budget is adopted by the Board. Public Budget Hearings are scheduled for August 19, 2025. Budget Adoption, which includes incorporation of any changes from the Budget Hearings, as well as any adjustments that are necessary following the close of FY 2024-25, will occur in September 2025, ahead of the October 2 statutory deadline to adopt the budget. All budget presentations, as well as the Budget Hearings, are held in public meetings, and comment from the public is welcomed.

The FY 2025-26 Recommended Budget process continues two key components established in 2021. First, a scheduled, public Budget Study Session was conducted with the Board of Supervisors on Tuesday, April 29, 2025, at 6:00 p.m. This provided a preliminary look at projected revenues and requested appropriations and gave the Board of Supervisors the ability to provide policy-level input into the budget before it became the CAO's Recommended Budget. While the County Administrator and CAO staff are attuned throughout the year to the Board's policy direction and incorporate that into budget development, the Budget Study Session provides a more formal process to further include direct feedback from the Board of Supervisors and the public.

Second, as in previous years, each cost center has a narrative including the mission and program discussion, significant changes from the prior year's budget, goals and accomplishments, and, where applicable, use of fund balance. The Recommended Budget is summarized in a table at the top of each narrative. As initiated in FY 2021-22, the page number in the Budget Book where the detailed budget can be found is referenced below this table to provide the reader with ease in comparing the narrative to the line-item detail.

Through the processes adopted by the Board, the public has multiple opportunities to provide input into the County's spending plan for the year. The Budget Study Session is held in the evening, Recommended Budget presentation is held during a regular Board of Supervisors meeting on a Tuesday afternoon, and Budget Hearings occur at a special morning meeting on a Tuesday morning.

FY 2025-26 Recommended Budget

The Recommended FY 2025-26 Budget represents a spending plan that has been aligned with available resources. The County is an organization committed to living within its means and it shows in the Board's ongoing prudent fiscal management. In development of the FY 2024-25 Recommended Budget, significant cuts were made in FY 2023-24, which has led to savings in the current fiscal year. Department Heads were very conservative in their requested budgets, with only a modest amount of reductions necessary to align proposed uses with available resources for FY 2025-26. General Fund revenue assumed to carry forward from FY 2024-25 is \$4,920,375, which is \$988,038 higher than what was projected in the FY 2024-25 Recommended. The difference in carryover fund balance is due mainly to increased revenues and stable operating costs. As mentioned in the introduction to this message, the County remains challenged with the inability of ongoing revenues to keep up with increasing costs and growing demand for quality, County-provided services. Many buildings and equipment items are in need of repair or replacement without sufficient revenues available without reducing services. The CAO's Office once again issued budget instructions in December that required departments turn in budgets with a net county cost (appropriations minus program specific revenues) that was equal to or below the FY 2024-25 Adopted Budget level. Many departments were unable to meet this requirement and continue to meet expected service levels.

As the Board has come to expect, the CAO's office staff and County departments worked tirelessly and collaboratively to produce a spending plan that maintains core functions to the extent possible. The result is a Recommended Budget that is balanced by reducing operating costs where possible and prudent use of one-time resources to support limited term costs. The Recommended Budget also relies on the use of special revenue funds to continue necessary (and often mandated) service levels. To ensure long-term fiscal stability, County staff remains focused on revenue performance and ensuring that expenditures are adjusted if revenues do not perform as well as what is projected in the FY 2025-26 Recommended Budget to avoid reliance on reserves. Further, much remains unknown about federal and state funding cuts. These two sources represent 65% of the County's operating revenues. Given the Board's policy to not backfill losses of state and federal funds with local, discretionary dollars, the budget may need significant revision to reduce appropriations once the final state and federal budgets are adopted. I remain confident that the County team can continue to analyze all aspects of County operations and make sound recommendations to maintain financial stability, but this endeavor will be increasingly difficult, if not downright painful.

Budget Overview – All Funds Budget

Appropriations

The FY 2025-26 appropriations for all funds are recommended at \$518,260,304, which includes \$515,058,377 in appropriations and \$3,201,927 in increases in committed fund balance. Overall, the year over year change from the FY 2024-25 Adopted Budget is an increase in appropriations of \$36,914,712 (7.7%). The majority of the increase is related to an increase in appropriations in the Behavioral Health Fund caused by the implementation of California Department of Healthcare Services Behavioral Health Payment Reform, where the County has to send funds through the state to the federal government before receiving those funds back along with the federal match. Sending the funds to the state requires an appropriation, increasing the overall appropriations significantly. The following table illustrates the allocation among the funds, including the largest operating departments:

No.	Fund	Adopted FY 2024-25	Recommended FY 2025-26	Change	
				Dollars	Percent
1.	Welfare/Social Services	\$88,397,134	\$92,084,100	\$3,686,966	4.2%
2.	General	\$75,128,526	\$80,854,687	\$5,726,161	7.6%
3.	Behavioral Health	\$44,113,999	\$70,350,258	\$26,236,259	59.5%
4.	Public Safety	\$48,975,734	\$50,392,792	\$1,417,058	2.9%
5.	Health Services	\$30,855,573	\$27,393,489	<\$3,462,084>	-11.2%
6.	Road	\$15,475,751	\$18,988,343	\$3,512,592	22.7%
7.	Mental Health Services Act	\$19,295,412	\$16,542,966	<\$2,752,446>	-14.2%
8.	Trial Court	\$13,898,438	\$13,818,195	<\$80,243>	-0.6%
9.	Information Technology ISF	\$5,887,389	\$5,493,904	<\$393,485>	-6.7%
10.	Capital Projects	\$2,483,328	\$3,249,079	\$765,751	30.8%
11.	Fleet Management ISF	\$1,226,503	\$1,349,209	\$122,706	10.0%
12.	Other Funds	\$135,607,805	\$137,743,282	\$2,135,477	1.6%
	TOTAL	\$481,345,592	\$518,260,304	\$36,914,712	7.7%

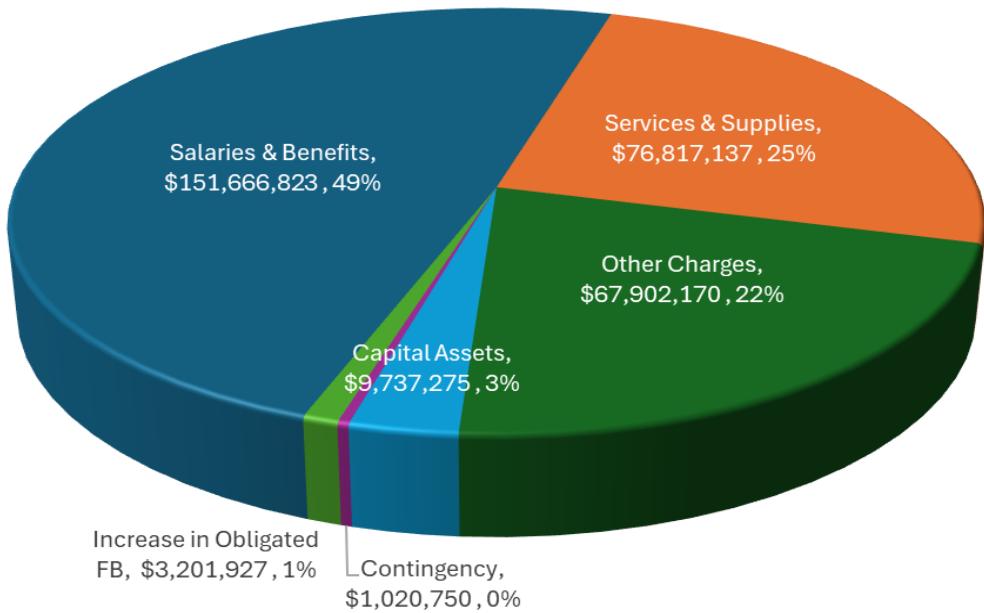
An increase in appropriations in the General Fund of \$5.7 million (7.6%) is largely related to the reinstatement of the \$1.1 million payment into the County's pension prefunding account that was eliminated in FY 2024-25 to balance the budget, as well as increases to the County share of cost for the Public Safety Fund (+\$2.9 million) and the Health Fund (+\$1.7 million), and a \$359,000 increase in the Planning and Building cost center related

to increasing development activities anticipated in the budget year. The increases are offset by a number of County departments, which are explained later in this report and in the respective departments' budget narratives. The largest fund continues to be the Welfare/Social Services fund at \$92.1 million in appropriations. This fund is primarily financed with state and federal revenues, and the General Fund cost is limited to a maintenance-of-effort of \$433,225, which is \$1,225 higher than the FY 2024-25 Adopted Budget. The Public Safety fund appropriations increase of \$1,417,058 (2.9%) is related to escalating costs for providing core safety services such as Sheriff, District Attorney, Fire Administration, and Office of Emergency Services. The increase is relatively modest compared to prior years, and appropriations have been aligned with historical spending patterns. The Behavioral Health fund appropriations increased by \$26.2 million (59.5%) related to the Intergovernmental Transfer as a result of a payment reform mechanism at the state. The Mental Health Services Act (MHSA) Budget is decreased by \$2.75 million (-14.2%) reflecting the volatility of MHSA revenues and a redirection of dollars that would have come to the County now being managed by the state under Proposition 1, the *Behavioral Health Services Act* passed by the voters in November 2024. There is no General Fund cost in the Behavioral Health/MHSA budgets, and services are provided to both Sutter and Yuba Counties. The decrease of \$3.5 million (-11.2%) in appropriations in the Health Services fund is related to decreases in federal funding, as well as a decrease in Homeless Services. There is also a reduction in appropriations in the Jail Medical Budget within the Health fund of approximately \$1.5 million, related to one-year funding for Medi-Cal expansion to the jail population, which was one-time in nature and not available in the budget year.

Appropriations in the Road fund increased by \$3.5 million, reflecting the level of projects expected in the budget year, as well as construction of a new corporation yard for Road operations and equipment. Appropriations in the Capital Projects fund are increased by \$765,751 (30.8%), reflecting additional projects that will occur in FY 2025-26. A full list of Capital Projects is included in the narrative for the Capital Projects fund.

Recommended appropriations for all County funds (including increases in obligated fund balance/reserves) total \$518,260,304, an increase of \$36.9 million from the FY 2024-25 Adopted Budget, the largest portion of which is the \$26.2 million increase in the Behavioral Health budget explained previously. However, this amount includes all revenue transfers between funds, interfund charges, and Internal Service Fund charges totaling approximately \$207.9 million, which must be recognized as expenditures but do not represent additional cost. When those are removed, the net appropriations are \$310,346,082, an increase of \$9,846,613 (3.2%) over the FY 2024-25 Adopted Budget. This number represents the value of programs and services that the County provides. The following charts show how the money is recommended to be spent.

FY 2025-26 Recommended Appropriations - \$310,346,082
(Net of interfund activities of \$207,911,129)



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 and professional and specialized services. 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, as well as overhead charges allocated through the County's annual cost plan. 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 related interest. 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 other interfund activities, totaling nearly \$208 million are not displayed on this chart as the appropriations represent the transfer of revenue between departments and programs without any added

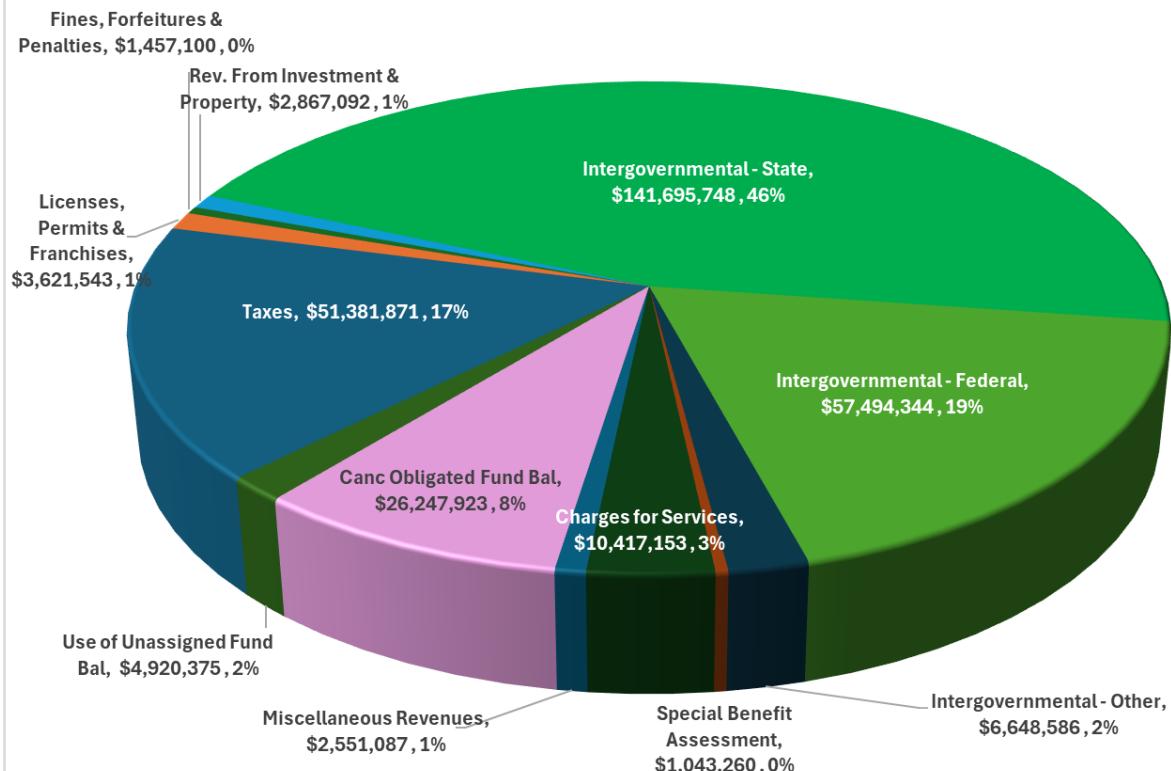
cost to the County. The charts also exclude Internal Service Fund charges to operating departments. Costs are budgeted in the respective internal service funds and would be duplicated if presented as costs in the operating funds.

Revenues

Revenues supporting all funds total \$518,260,304, which is made up of \$487,092,006 in revenues and \$26,247,923 in cancellation of obligated fund balance in the General Fund and Special Revenue Funds, as well as \$4,920,375 of assumed General Fund unassigned fund balance carried forward as savings from FY 2024-25.

Revenues must be recognized in each cost center, or fund, that receives them, even when they are already recognized in another fund within the County before transfer. This inflates the overall true revenue number. When interfund revenue transfers are removed, actual revenues, including use of fund balance, are estimated at \$310,346,082. The chart below shows the sources of revenue in proportion to the total. Federal and state revenues account for 65% of total revenues, while Taxes account for 17%, Charges for Services account for 3%. Miscellaneous Revenue, Intergovernmental Revenues generated locally, Fines, Forfeitures and Penalties, and Licenses, Permits and Fees combined account for about 4% of revenues, and Interest revenue for 1%. Use of Unassigned and Obligated Fund Balance accounts for the remaining 10% of funding available to support recommended appropriations.

FY 2025-26 Revenues by Type - \$310,346,082
(Net of internal transfers of \$207,914,222)



Budget Overview – General Fund Budget

Appropriations

General Fund appropriations are recommended at \$80,854,687, an increase of \$5,726,161 (7.6%) from the FY 2024-25 Adopted Budget. Salaries & Benefits total \$26.8 million, an increase of \$244,044 (0.8%), reflective of holding positions vacant across General Fund departments to reduce costs across all General Fund departments. This planned vacancy factor totals nearly half a million dollars in savings and represents reduced availability of services.

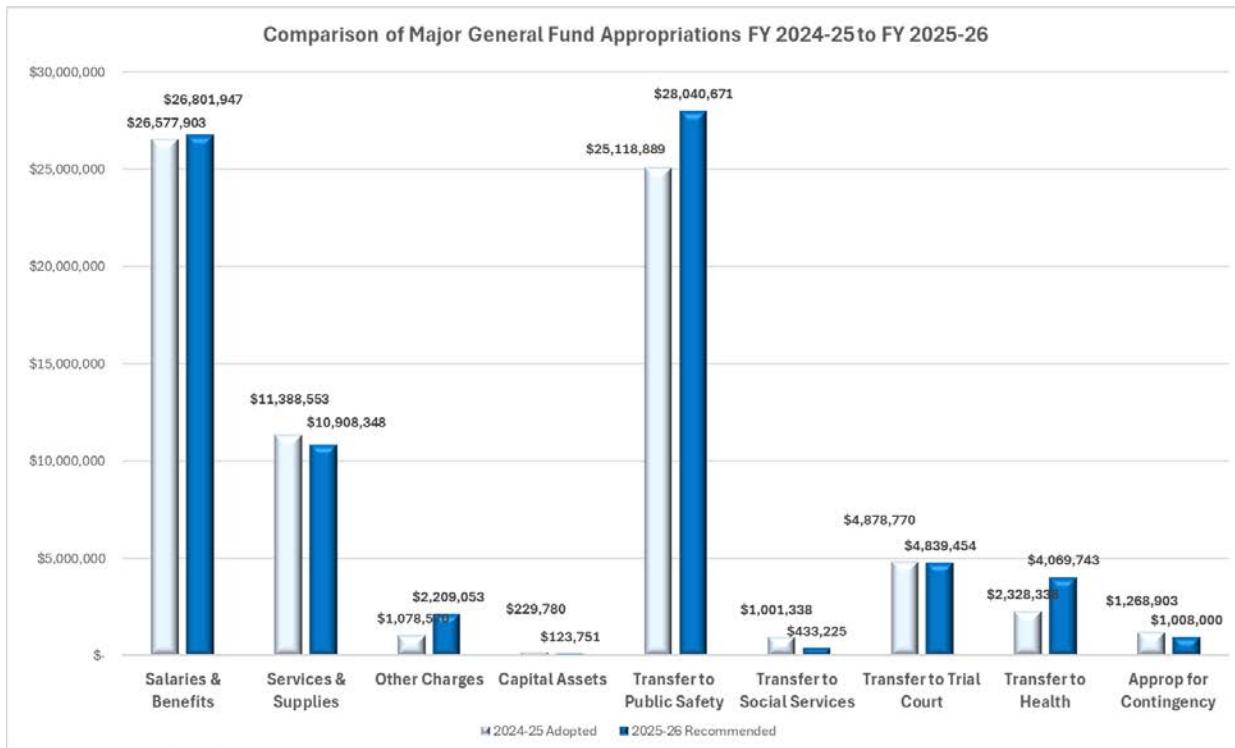
Services and Supplies cost is reduced by \$480,205 (-4.2%) reflective of slightly lower operating costs across most departments. The Other Charges category is increased by \$1.1 million, reflecting the restoration of the payment to the County's pension prefunding account with Public Agency Retirement Services. Capital Assets funded by the General Fund are reduced by \$106,029 (-46.1%) as the repairs to the Clerk-Recorder-Elections office has been eliminated until an updated project cost can be estimated.

General Fund appropriations include transfers to four operating special revenue funds, the largest of which is the Public Safety Fund. The transfer to the Public Safety Fund increased by \$2,921,782 (11.6%), reflective of higher salaries and benefits and other operating costs in that fund and including the elimination of federal American Rescue Plan Act (ARPA) funds that ended on December 31, 2024. Cost Centers in the Public Safety Funds include all Sheriff operating budgets, Jail and Juvenile Hall operations, District Attorney/Victim Services, Fire Administration and the Office of Emergency Services. The transfer to the Trial Court fund is decreased by \$39,316 (-0.80%) due to slightly higher court fine revenues and stable operating cost in the Probation and Public Defender departments.

The General Fund transfer to Social Services is reduced by \$568,113 which reflects the elimination of pass-through funding for 1991 Realignment that now goes directly to the operating fund. The CalWORKs maintenance of effort (MOE) level increased from \$432,000 to \$433,225 (0.28%). This maintenance of effort is the only General Fund requirement for all of the Social Services programs including child welfare services, adult protective services, In-Home Supportive Services local share of cost, Foster Care and Adoptions Assistance payments, CalFresh benefits, Medi-Cal, CalWORKs. The transfer to the Health fund increased by \$1,741,407 (74.8%) due to a change in the General Fund allocation methodology. Cost to the General Fund include the statutory MOE \$674,240 to receive Health Realignment funding of nearly \$6 million, the County Medical Services Program participation fee of \$188,781, the net cost of the Homeless Services of \$1.1 million and a share of cost for Jail Medical Services.

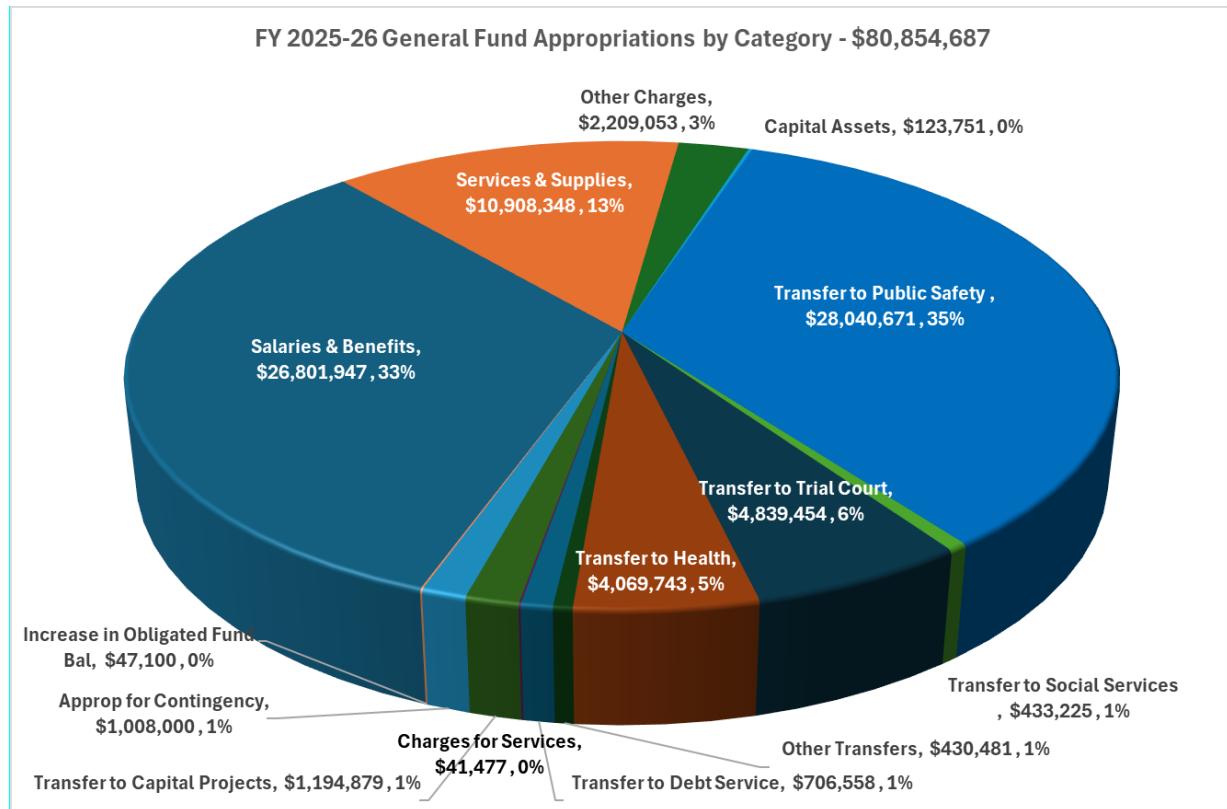
The transfer to the Capital Projects fund is \$1,194,879 and includes the following projects:

- \$348,879 Workday ERP second phase budget software implementation
- \$200,000 Workday ERP implementation of PRISM software for data analytics
- \$200,000 Replacement of the generator at the Emergency Operations Center
- \$446,000 Access Control Panel replacement project



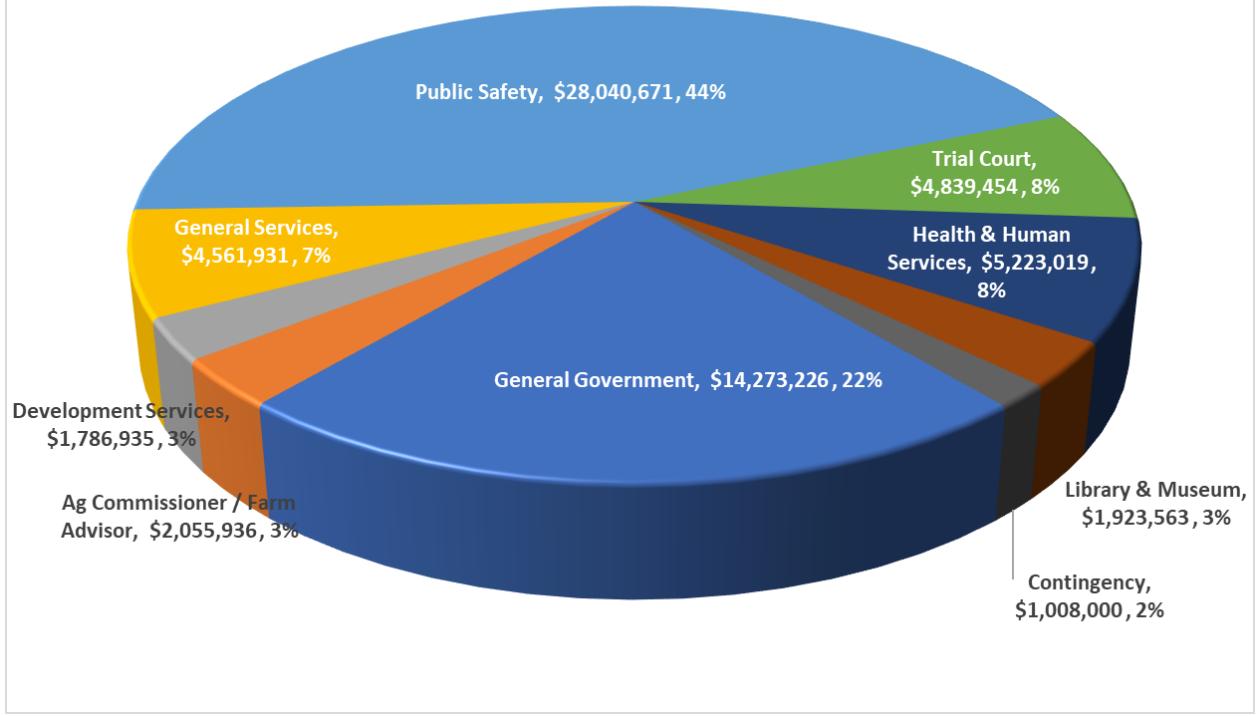
Capital Assets is recommended at \$123,751, a decrease of \$106,029 (-46.1%) from the FY 2024-25 Adopted Budget. Assets include a trailer for Grounds Maintenance equipment, purchase of two office cubicles for the Bi-County Farm Advisor, Museum security system upgrade, and Clerk-Recorder software implementation. Capital Assets are recommended as follows:

- \$13,900 Building Maintenance equipment trailer
- \$ 5,500 Bi-County Farm Advisor office cubicles
- \$10,000 Museum security upgrades
- \$94,351 Clerk-Recorder Tyler Software implementation



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 (CC1209) narrative starting on page C-21. The net General Fund cost of all programs funded by the General Fund is \$63,712,735, an increase of approximately \$5.3 million (9.1%) from FY 2024-25 and reflective of slightly higher General Fund revenues, use of committed fund balance, and available unassigned fund balance. Net General Fund cost 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.

FY 2025-26 Net County Cost Funded by General Fund - \$63,712,735



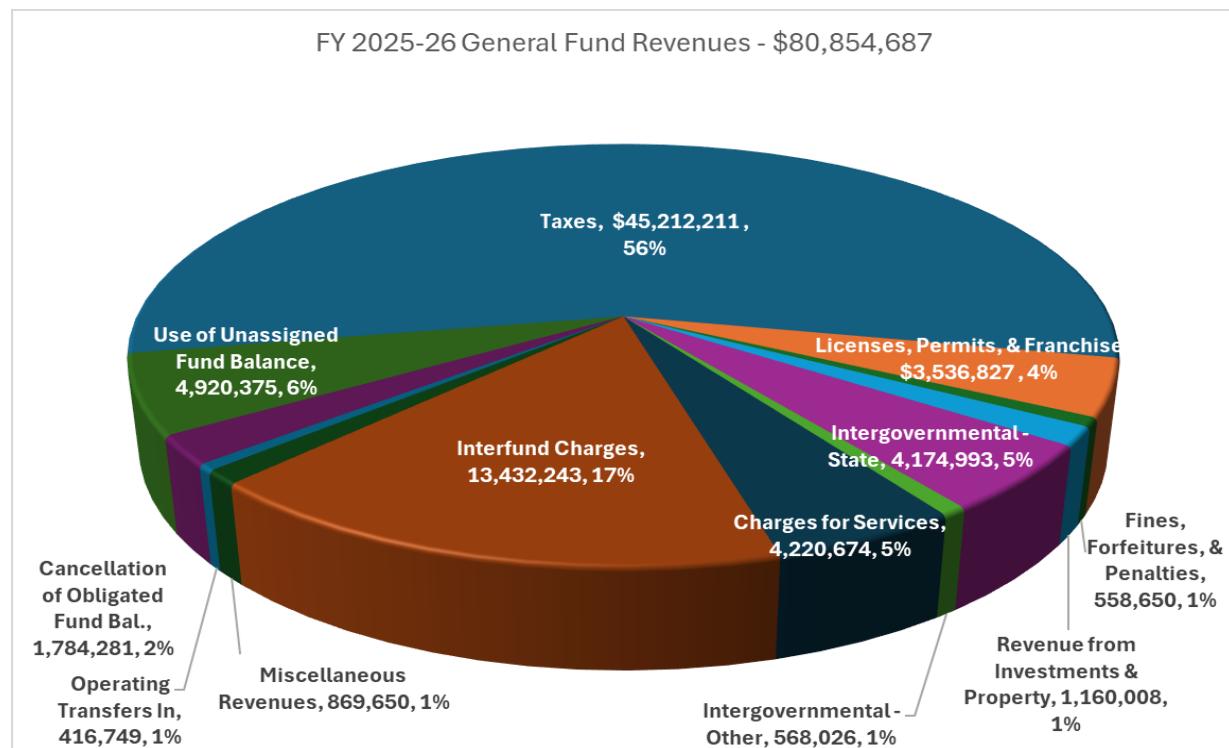
As a policy document, the General Fund budget shows areas where the County places emphasis. For example, the chart above shows the largest share of funding at \$28 million (44%) goes directly to Public Safety programs, including the Sheriff, the Jail, Juvenile Hall, and the District Attorney, as well as Emergency Management and Fire Administration, while another \$4.9 million (8%) goes to the Trial Courts, which includes the Probation Department, Court Bailiff services provided by the Sheriff, Public Defender, and the Maintenance of Effort payment that the County is required to pay to support court functions. General Government, at \$14.3 million (22%), represents the basic services provided to operate the County such as the Assessor, Auditor-Controller, Treasurer-Tax Collector, County Clerk-Recorder, Elections, Human Resources, County Administrator, County Counsel, Board of Supervisors, and Grand Jury 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 General Government cost is recovered through the County's annual Cost Plan, which allocates overhead costs to all programs, including those funded by federal, state and outside sources.

Development Services funding of \$1.8 million (3%) includes the County Planning, Building and Environmental Health services. General Services funding of \$4.6 million (7%) includes Building and Grounds maintenance for all County facilities, Parks and Recreation (including boat launches), 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 of \$5.2 million (8%) funds the cost of Public Health communicable and chronic

disease prevention and control and jail medical services, the Maintenance of Effort for Social Services (\$433,225), Homeless Services, Public Guardian, Veterans Services, and General Relief. Funding for the Sutter County Library and Sutter County Museum of \$1.9 million (3%) invests in services to promote education and enrich the community. Funds appropriated for the Agricultural Commissioner and the Farm Advisor of \$2.1 million (3%) ensure that services are available to support our local agriculture economy. Finally, an Appropriation for Contingency of \$1,008,000 (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.

Revenues

Revenues to support General Fund-funded programs total \$80,854,687, including \$65,145,732 in General Revenues and \$15,708,955 in General Fund department-specific revenues. Revenue to support General Fund obligations comes from a mixture of Taxes (56%), Charges for Services and Operating Transfers, including internal cost plan (overhead) charges calculated in compliance with federal regulations (23%), Intergovernmental Revenue from state and local sources (6%), Licenses, Permits and Fees (4%), and use of fund balance, both unassigned and committed (8%). Revenue from Investments and Property, which includes interest revenue and rental income from use of County-owned space (1%), while Miscellaneous Revenue and Fines, Forfeitures and Penalties and Operating Transfers make up the remainder (2%). The following chart shows the revenue sources in proportion to the total revenues received.



Countywide Staffing

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

No.	Department/Office	Adjusted FY 2024-25	Recommended FY 2025-26	Change
1.	Health and Human Services	593.00	599.00	6.00
2.	Sheriff	156.00	157.00	1.00
3.	Development Services	67.00	67.00	0.00
4.	General Services	56.00	56.00	0.00
5.	Probation	52.00	52.00	0.00
6.	County Administrator's Office	35.50	35.50	0.00
7.	District Attorney	32.00	32.00	0.00
8.	Agricultural Commissioner	19.00	19.00	0.00
9.	Assessor	17.50	17.50	0.00
10.	County Clerk-Recorder	16.00	16.00	0.00
11.	Auditor-Controller	15.90	15.90	0.00
12.	Library	13.55	13.55	0.00
13.	Human Resources	11.20	10.20	(1.00)
14.	Treasurer-Tax Collector	9.00	9.00	0.00
15.	County Counsel	8.80	8.80	0.00
16.	Board of Supervisors	6.00	6.00	0.00
17.	Child Support	4.00	3.00	(1.00)
18.	Sutter County Museum	2.55	2.55	0.00
19.	Public Defender	2.50	2.50	0.00
20.	Bi-County Farm Advisor	2.00	2.00	0.00
	TOTAL	1,119.50	1,124.50	5.00

The overall number of County Full Time Equivalent (FTE) positions is proposed to increase by 5.00 FTE from 1,119.50 to 1,124.50. New positions are funded by state and federal grants.

All increases, decreases and transfers are as follows:

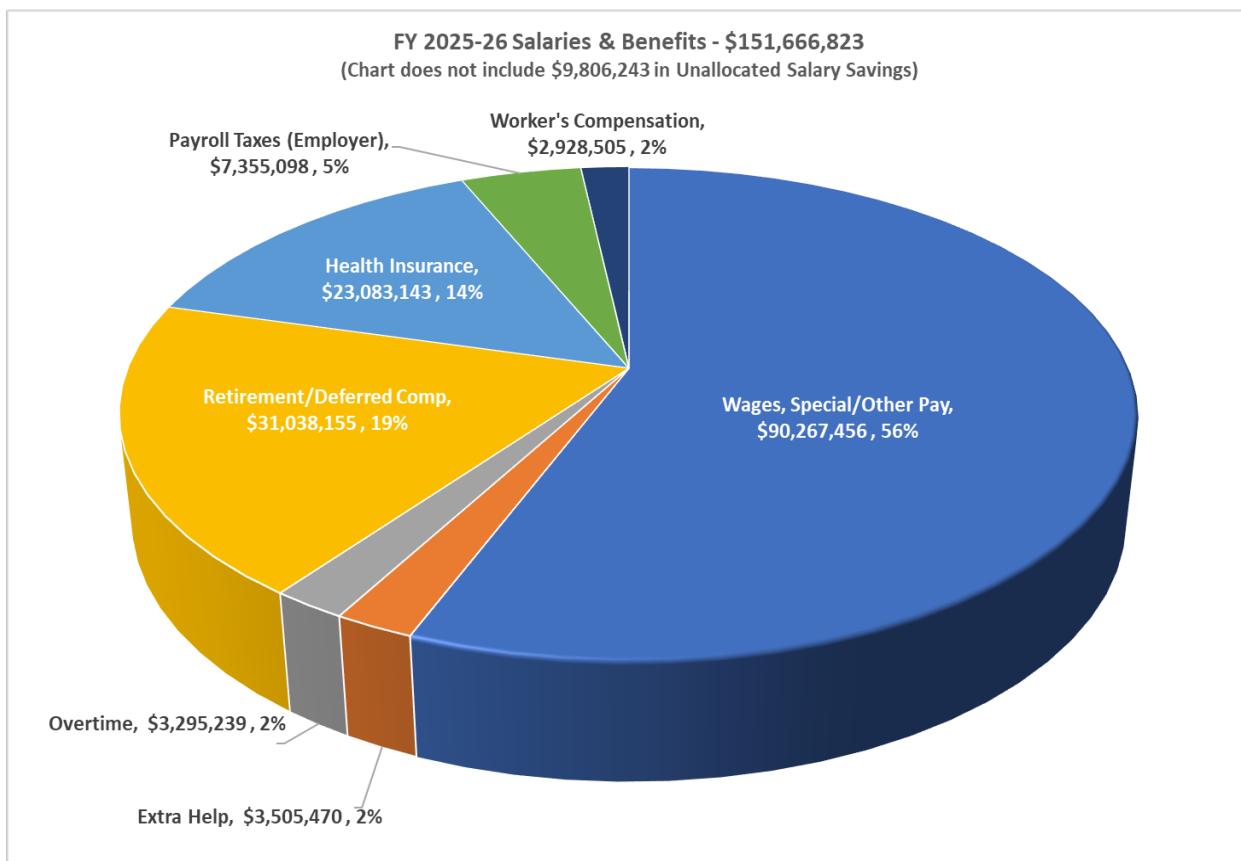
- Addition of 1.00 FTE Accountant I/II to Development Services Administration (CC2721)
- Transfer of 1.00 FTE Development Services Technician I/II from Planning & Building (CC2724) to Environmental Health (CC2725)
- Elimination of 1.00 FTE Office Assistant II from Environmental Health (CC2725)
- Elimination of 1.00 FTE Office Assistant II from Animal Control (CC2726)
- Addition of 1.00 FTE Account Clerk III to General Services Administration (CC1205)
- Elimination of 1.00 FTE Building Services Worker from Building Maintenance (CC1700)
- Addition of 1.00 FTE Staff Services Manager to Health & Human Services Administration (CC4120)
- Addition of 1.00 FTE Accountant II to Behavioral Health (CC4102)
- Elimination of 1.00 FTE Accounting Technician I from Behavioral Health (CC4102)
- Addition of 1.00 FTE Intervention Counselor II to Behavioral Health (CC4102)
- Transfer of .50 FTE Intervention Counselor from Mental Health Services Act (CC4104) to Behavioral Health (CC4102)
- Transfer of .50 FTE Resource Specialist from Mental Health Services Act (CC4104) to Behavioral Health (CC4102)
- Transfer of .20 FTE Program Manager-Clinical Services from Mental Health Services Act (CC4104) to Behavioral Health (CC4102)
- Transfer .25 FTE Prevention Services Coordinator from Behavioral Health (CC4102) to Homeless Services (CC4121)
- Transfer .12 FTE Program Manager-Community Services from Behavioral Health (CC4102) to Homeless Services (CC4121)
- Transfer of 1.00 FTE Prevention Services Coordinator from Mental Health Services Act (CC4104) to Jail Medical Services (CC4134)
- Transfer of .25 FTE Prevention Services Coordinator from Mental Health Services Act (CC4104) to Homeless Services (CC4121)
- Transfer of .13 FTE Program Manager-Community Services from Mental Health Services Act (CC4104) to Homeless Services (CC4121)
- Addition of 1.00 FTE Health Program Specialist I/II to Public Health (CC4103)

- Elimination of 1.00 FTE Medical Clerk II from Public Health (CC4103)
- Transfer of .50 FTE Staff Nurse from Public Health (CC4103) to Jail Medical Services (CC4134)
- Transfer of .25 FTE Health Program Specialist II from Welfare Administration (CC5101) to Homeless Services (CC4121)
- Addition of 1.00 FTE HHS Deputy Branch Director to Welfare Administration (CC5101)
- Addition of 1.00 FTE Public Assistance Specialist I/II to Welfare Administration (CC5101)
- Addition of 1.00 FTE Social Worker Supervisor II - Children Services to Welfare Administration (CC5101)
- Addition of 2.00 FTE Staff Analyst to Welfare Administration (CC5101)
- Elimination of 1.00 FTE Supervising Staff Services Analyst from Welfare Administration (CC5101)
- Addition of 1.00 FTE Deputy Public Guardian-Conservator to Public Guardian (2709)
- Elimination of 1.00 FTE Deputy Guardian-Conservator-Limited Term to Public Guardian (2709)
- Elimination of 1.00 FTE Child Support Specialist from Child Support Services (0-112)
- Transfer of 0.48 FTE Administrative Services Officer from Victim Services (CC2127) to District Attorney (CC2125)
- Elimination of 1.00 FTE Deputy District Attorney I/II/III from District Attorney (CC2125)
- Addition of 1.00 FTE Senior Criminal Investigator-Limited Term to District Attorney (CC2125)
- Elimination of 1.00 FTE Office Assistant III/Legal Secretary I from Victim Services (CC2127)
- Addition of 1.00 FTE Office Assistant III/Legal Secretary III to Victim Services (CC2127)
- Elimination of 1.00 FTE Victim Advocate I from Victim Services (CC2127)
- Addition of 1.00 FTE Victim Advocate I/Senior to Victim Services (CC2127)
- Addition of 1.00 FTE Accountant I/II to Sheriff-Coroner (CC2201)

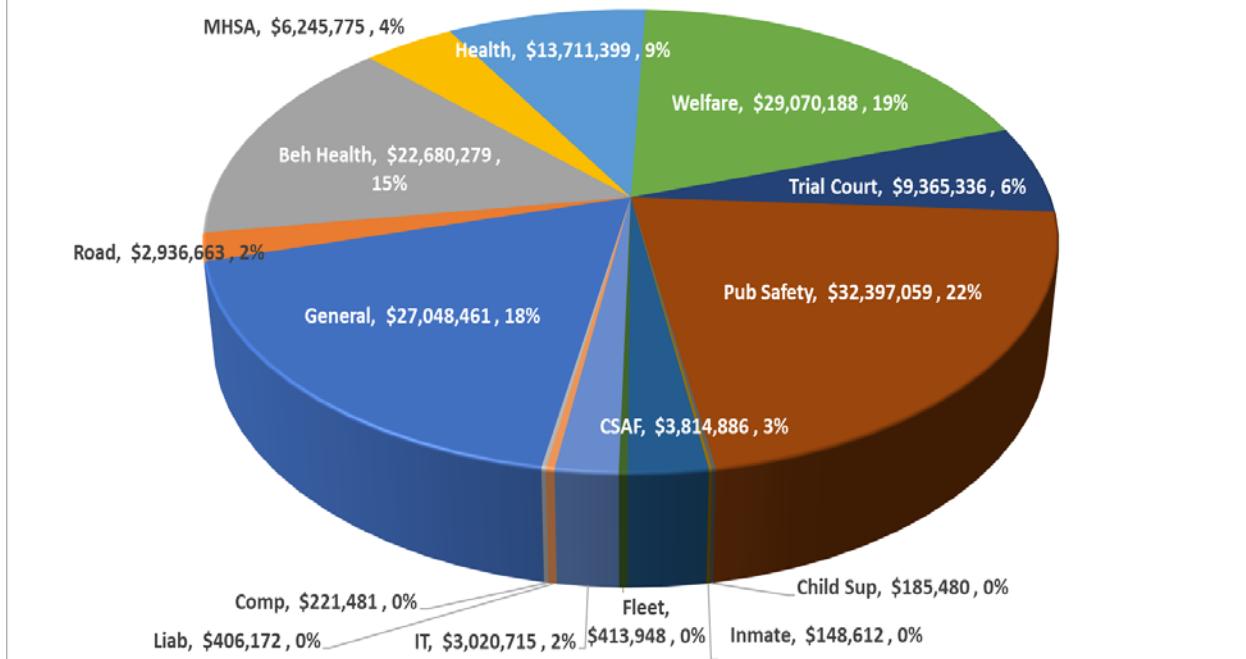
The cost of personnel is spread among numerous departments within many of the County's funds. Total personnel cost is recommended at \$151,666,823, a decrease

\$884,780 (-0.6%) over the FY 2024-25 Adopted Budget. In FY 2022-23, labor negotiations were settled with multiple bargaining units. To meet market demand and allow for successful recruitment, substantial wage adjustments were given, primarily in public safety, health care, engineering and other difficult to recruit classifications. Sutter County continues to lag behind the market in salaries, and the County is currently in negotiations with several of its bargaining units. No increase in wages beyond what has already been negotiated is included in the FY 2025-26 Recommended Budget. Once negotiations are settled with the various units, departments are likely to have to absorb the increased cost within their respective budgets.

The following graphs show the individual costs by type of expense and the distribution of payroll costs across all funds.



FY 2025-26 Net Salaries & Benefits by Fund \$151,666,823
(net of \$9,806,243 in salary savings reduction and incl. CSA C&D Worker's Comp \$369)



Ongoing and Future Challenges and Opportunities

Sutter County always has and will continue to meet its mandated and contractual financial obligations. What is uncertain is the level to which the County can continue to deliver quality services given significant financial constraints. Discretionary revenue simply does not keep pace with the level of services currently provided. This occurs for a number of reasons. First, Proposition 13 limited property tax annual growth to the lower of inflation as calculated by the consumer price index or 2 percent. Thus, homeowners and business property owners are guaranteed that their annual property tax will remain stable despite high inflation. However, this constrains the growth in the tax base. Properties are reappraised when they change ownership, but the number of properties that change hands in any given year, particularly business properties, is relatively low. Thus, property taxes have grown an average of 4.45% per year over the past eight years, although growth of 2.66% is expected for FY 2025-26. Growth in operating costs within the County, including salaries and benefits, is outpacing the revenues, so service levels are eroded as the affordability tightens. Sales tax remains stable but relatively low due to commerce occurring primarily in cities rather than the unincorporated areas of the County. Over the past eight years, sales tax has increased an average of 4.2% per year but is expected to increase by only 2.0% in FY 2025-26 due to a softening economy.

At the same time, the cost to remain competitive in the job market is growing and Sutter County continues to lose ground. For many positions, Sutter County continues to rank lowest or nearly lowest in comparisons with other local jurisdictions. Other counties and cities have awarded substantial increases to attract candidates, but Sutter County doesn't have the financial growth to keep pace with the market. This means that positions stay vacant longer or turnover at a higher rate, losing valuable skills and experience. Both of these impact the services provided to the community. Already, the County ranks second in fewest employees per capita among the 31 counties in the state with populations below 200,000. The resulting low level of staffing affects quality of service, yet the public does not adjust its expectations. Most people do not understand the revenue limitations and the myriad services that the County must provide and simply expect great service.

As a local government, Sutter County has 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 that the County relies on are among the lowest in California and are infrequently adjusted (most do not keep up with inflation). The majority of land in the unincorporated areas of the County is considered "undevelopable" due to being in the flood plain. This dramatically limits economic development that could increase funding and, by extension, service levels. Measure A, which was on the November 2022 ballot, would have raised sales tax by 1 cent (1%) across the entire County, including the incorporated cities of Live Oak and Yuba City. This measure was defeated by only a slim margin. Had it been successful, it would have brought significant additional revenue to the County and cities and allowed more robust services that the community already demands.

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 under the law to provide. To complicate matters, the County's demands for public assistance remain

above the Statewide average. For example, demands for many health and human services continue to increase similar to demands for public safety services. The upcoming federal FY 2025-26 budget discussions indicate that there will be substantial cuts to programs, many of which benefit the residents of Sutter County. For example, cuts to Medicaid and the Supplemental Nutrition Assistance Program (SNAP), known as Medi-Cal and CalFresh respectively in California, are targeted for reductions at the federal level. These cuts will not only affect services provided by Sutter County, but could also directly impact local grocery stores, landlords, medical providers, and other businesses that contribute to our local economy.

Without significant new resources, the County continues to narrow services even further. While preserved to the extent possible in prior years, even Public Safety departments have not been exempted from impacts. Overall, this diminishing ability to finance services means longer wait times for public safety responses, building permits, vital records issuance, election results, health inspections, and communicable disease response. The County will be forced to scale back its efforts to prevent homelessness, which now costs the General Fund over \$1 million per year. A scale back may result in reemergence of homeless camps along county roads, outside businesses, and in wildland areas and impact city services as well. The Sutter County Museum will continue to be closed to the public on Mondays and Tuesdays in the budget year, impacting programs provided to local residents and students. The Library Yuba City Main branch will also remain closed on Mondays to manage within existing resources. Development in Sutter Pointe may provide some revenue relief, but Sutter County only receives 16 cents for every new property tax dollar generated. In general terms, 1,000 homes valued at \$500,000 each would generate \$5 million in new property tax, but the County would only retain \$800,000 of the taxes. The County cannot cut deeply enough to live within its means in the future without reductions to all services, including law enforcement response, jail staffing, prosecution, victim assistance, disaster response, fire suppression and emergency medical aid, building, fire and safety inspections, and myriad other services that the public, regardless of whether they reside in the cities or the unincorporated areas, relies on. There are no easy solutions.

The County has seen challenges coming and has prepared to the extent possible. Through careful strategic financial planning and disciplined spending of one-time funds, the County has increased its General Fund reserves from \$1.1 million in FY 2020-21 to \$12.5 million in FY 2024-25, which meets the Government Finance Officers Association for the minimum reserve level for the General Fund of 60 days' working capital (16.67%). The County has also invested one-time monies in building repair and maintenance, including repair of aging, leaking roofs, that had been deferred to sustain public safety and other service levels in prior years. The County will continue to invest one-time funds in one-time projects that will help the County to become even more efficient and avoid costly repairs.

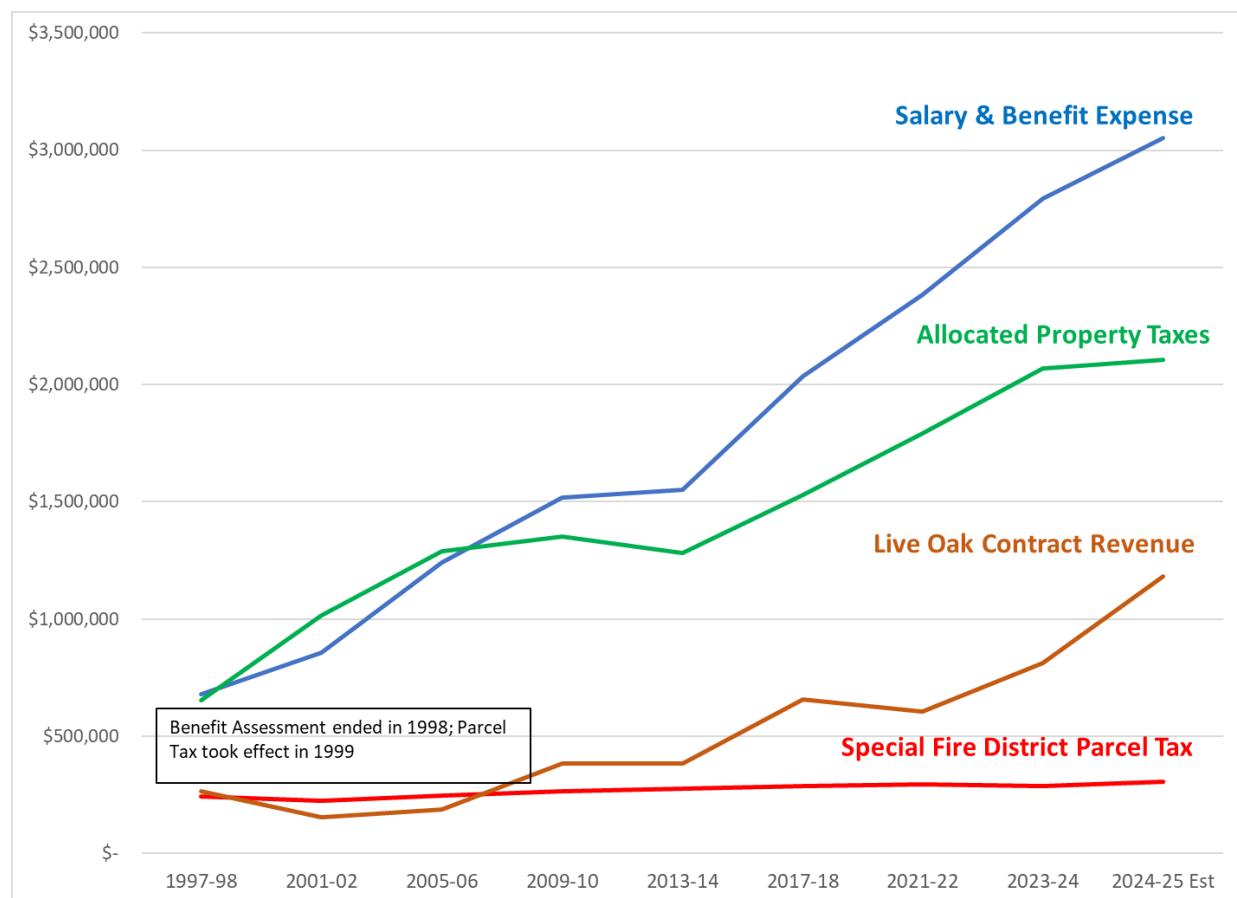
For FY 2025-26, the CAO's office asked departments to turn in budgets with a Net County Cost that was equal to or below the FY 2024-25 Adopted Budget level. This was an incredibly difficult task, as most departments remain at low staffing levels and have little ability to manage increasing personnel and other operating costs without major service

reductions. The few new positions that are recommended are fully funded with state and federal resources.

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

Fire Services in County Service Area – F (CSA-F)

Revenues generated by property taxes and a special fire tax no longer support the level of services that the residents in the district receive. In 1997, residents of CSA-F passed a special fire tax to replace an annual benefit assessment for professional firefighters in the CSA. However, the fire tax did not include an inflationary escalator and was limited to non-agricultural structures. Since the vast majority of land in CSA-F is agricultural, the buying power of the special tax has eroded to the point that the tax revenue does not fully support operations.



Since May 2020, the County has paid over \$4.6 million in one-time, discretionary funds to support CSA-F service levels. In FY 2024-25, \$1.7 million in COVID-related funds was shifted to CSA-F. However, COVID funds expired on December 31, 2024, so no further funds are available. The CSA has also relied on federal Staffing for Adequate Fire and Emergency Response (SAFER) grants funds to support ongoing operations. However,

CSA-F has been passed over in the last two rounds of SAFER funding, and future funding is unlikely under the current federal administration. Thus, outside funding to support the current level of service is unlikely. Under existing California law regarding County Service Areas, the Board may not simply give funds to CSA-F to subsidize the existing level of services. The only option is to loan funds that must be repaid in the same fiscal year. The Board has the ability to extend the terms of any loan to a CSA for up to three years, but there is no provision to simply forgive the loan without being able to demonstrate significant financial hardship to the people in the CSA. Further, in its fiduciary role, the Board must apply the prudent investor standard as stated in California Government Code (§27000.3). In other words, the Board cannot lend money to an entity that it believes has no ability to repay. In its establishing resolution for the consolidation of the CSAs that became CSA-F, the LAFCO board clearly stated that services in the CSA would be “restricted only by the service area’s ability to finance such services.” The General Fund was never intended to be the backstop to sustain services that could not be directly provided by CSA-F. To use general revenue sources to backfill the shortfall in CSA-F would mean reducing services across all areas of the County and not just within the boundaries of CSA-F.

Absent sufficient, dedicated funding, CSA-F would have had to reduce costs by July 1, 2025. The Board has not ignored the dire financial situation but has been unable to come up with a sustainable funding source that meets the legal restrictions placed on CSAs by the legislature. In 2022, the Board of Supervisors placed Measure A on the ballot in hopes of securing adequate revenue to fund all rural fire areas and districts, but the measure was not passed by voters. In 2023, a citizen initiative to provide additional funding to CSA-F was started, but not enough signatures were secured to qualify it for the November 2024 ballot. If no new funding source materializes, then the Board will have to consider options such as staffing stations with a combination of professional and volunteer firefighters, reducing hours that the stations are open, or closing a station entirely.

Impact of Cuts at the Federal Level

As stated earlier, Sutter County Government and the entire local economy are highly dependent on federal funding. The new administration has been focused on making cuts across programs at the federal level and the local impacts are largely unknown. As of this writing, the House of Representatives has narrowly passed the President’s proposed spending plan, which includes cuts to Medicaid. Among the potential cuts are reductions in the Supplemental Assistance Nutrition Program (SNAP), which is known as CalFresh in California. This program provides direct assistance to lower income, often families, to purchase foods. Eligibility is determined by County staff locally in accordance with federal and state regulations. The proposed changes could reduce funding for eligibility determination and would reduce food assistance to families. This would have a direct impact on local grocery stores that rely on food assistance programs.

Perhaps a more alarming proposal would reduce the federal financial participation in Medi-Cal. In 2020 when the Affordable Care Act was enacted, benefits were expanded to include childless adults. Federal funding was initially set at 100% of the cost and then reduced to 90% of the expansion population with the state paying the remaining 10%. This virtually eliminated the County’s indigent health care responsibility under Welfare

and Institutions Code 17000. Funding for indigent care had been included in 1991 Realignment, and a percentage of Sutter County funding was automatically diverted to the County Medical Services Program (CMSP). Established in the 1980s CMSP is a collective of small counties who contributed to a pool to meet the indigent care mandate. Through 1991 Health and Welfare Realignment, funds were deducted from participating counties' health realignment funds. CMSP met counties' statutory obligation to pay for indigent care. As a part of the 2011 Health and Welfare realignment mechanism, the state swept the funds away from counties and directly into providing CalWORKs benefits. The counties received zero benefit from the expansion of Medi-Cal but retained the statutory obligation for medically indigent services. If the roll-back of federal funding for the expansion occurs, it is unlikely that the state will return the diverted realignment funds to counties. Since the statutory obligation remains, counties could be responsible for medically indigent adults with no funding stream to support that cost.

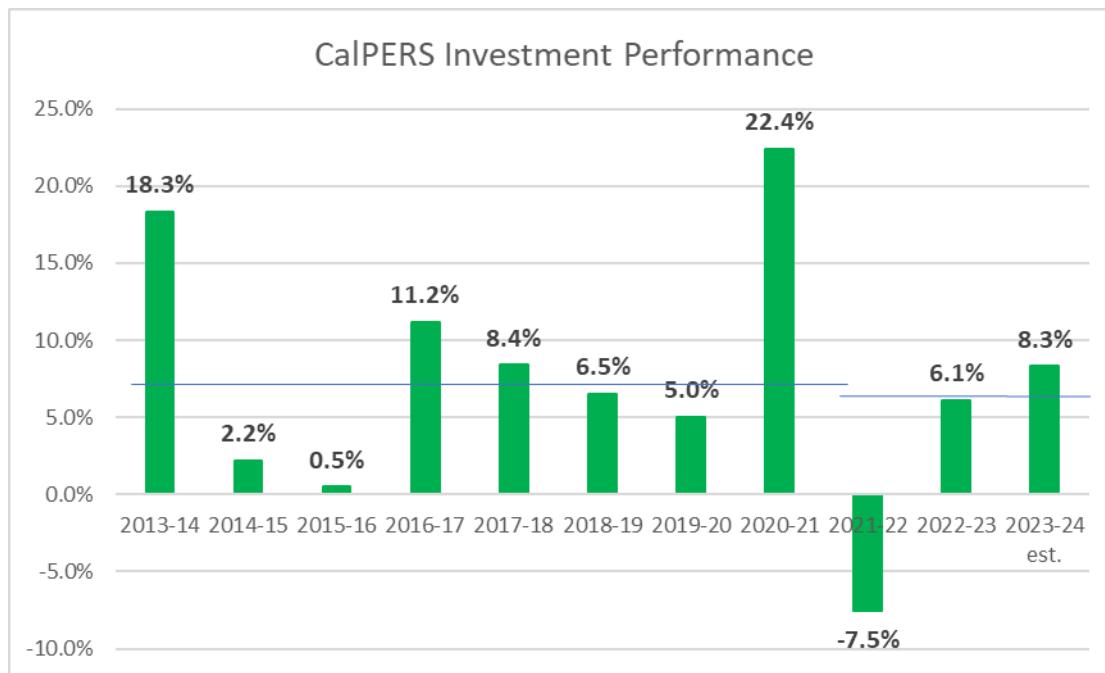
While the extent of which other cuts are occurring at the federal level is unknown, cuts to federal health and welfare programs as well as entitlement programs are likely and will have a direct impact on local retailers, landlords, farmers, and other businesses crucial to the local economy.

Pension and Other Post-Employment Benefits (OPEB) Funding

Sutter County contracts with the California Public Employees' Retirement System (CalPERS) for employee retirement benefits. Pension payments are divided into two separate calculations, the "normal cost" rate and a flat payment for the amortized unfunded accrued liability, "UAL." The normal cost rate is simply the projected value of future pensions without benefit changes and market gains and losses. For employees in the Miscellaneous (non-public safety) group, the employer's normal cost is 10.4%. For Safety members, the employer's normal cost rate is 18.36%. These amounts remain relatively stable from year to year. The second component of the pension cost is the amortized cost of the County's UAL. For Miscellaneous members, the County's cost is \$12,693,848. For Safety members, the County's cost is \$4,987,815, for a total of \$17,681,663 for FY 2025-26. This flat payment is apportioned monthly to all departments based on their percentage of employee wages, ensuring that state and federal programs bear their fair share of the pension cost. Under Board of Supervisors direction, the County is scheduled to prepay the lump sum UAL payment in July, which will save the County approximately \$572,000.

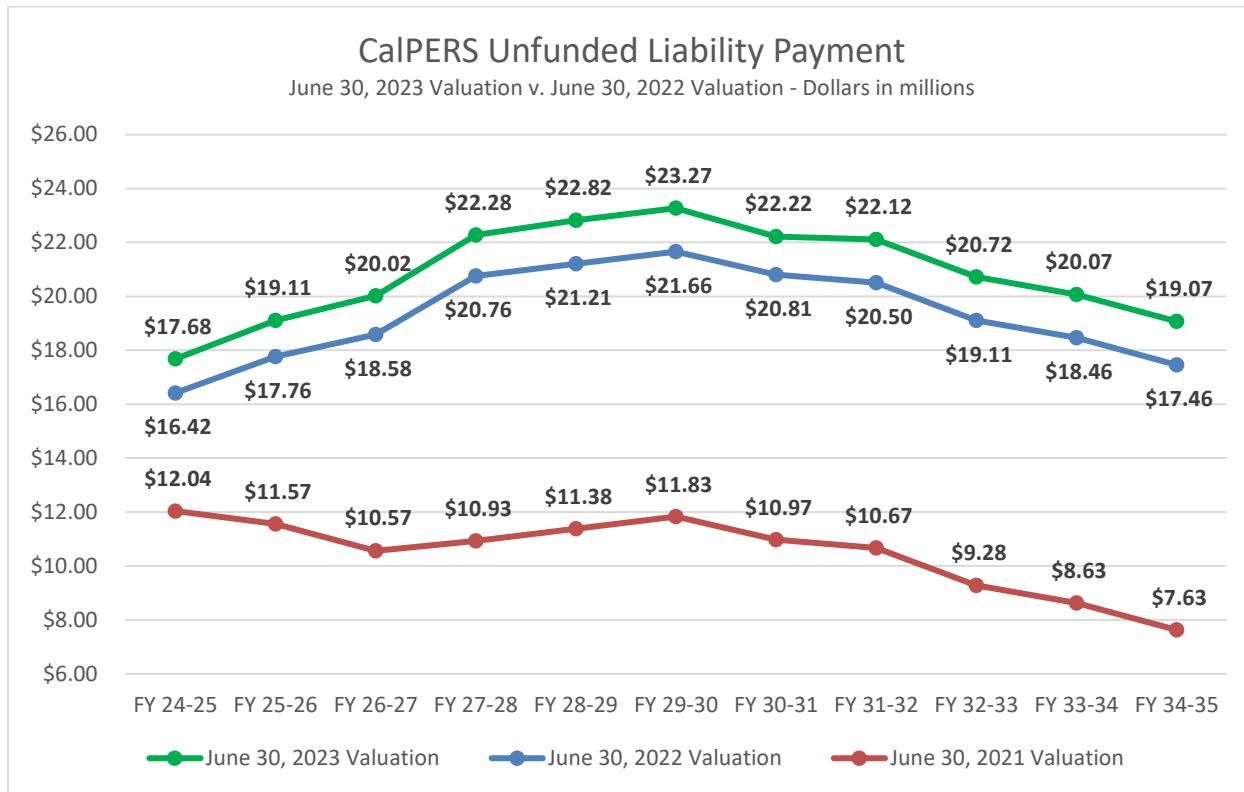
In FY 2020-21, CalPERS experienced extraordinary investment gains of 21.3%, more than 14% above the discount rate (assumed rate of return). This had two significant impacts on the County's pensions. First, the investment return triggered an automatic reduction in the discount rate from 7.0% to 6.8%. Since this assumes a lower return on future investments (although more aligned with market analysis of future returns), this increased the UAL as the investment earnings used to pay the County's pensions are now assumed to be less. Second, the extraordinary gain was amortized over a 20-year period, which will positively impact future UAL payments. For FY 2021-22, however, CalPERS experienced a 7.5% loss, which rises to 14.3% when coupled with the discount rate of 6.8%. This reduced the County's funded ratio from 80.7% in 2021 to 70.4% in 2022. As of the 2023 valuation, the County's funded ratio remains virtually the same at

70.5% with a balance of \$214 million. For FY 2023-24, CalPERS experienced a gain of 8.3%, which is higher than the discount rate by 1.5 percent. As a result the County's funded ratio should be higher when the new 2024 valuation is released later this summer. In the current year the markets have been quite volatile and investment performance year to date is down, although not as precipitously as shortly after tariffs were imposed by the United States. The markets will have to post a gain greater than the discount rate (6.8%) for the fiscal year by June 30 to avoid higher UAL costs in FY 2027-28. The final investment return for FY 2024-25 will not be known until after June 30, 2025, and the impact will not be known until the 2025 valuation is completed, sometime in late summer of 2026. The chart below shows the historical investment returns compared to the discount rate from FY 2013-14 through the estimated return for FY 2023-24:



The horizontal lines represent the discount rate: 7% from FY 2013-14 to FY 2020-21 and 6.8% from FY 2021-22 to present.

The chart below shows the anticipated CalPERS UAL payments over the budget year and the 10-year period following, based on the 2021, 2022, and 2023 valuations. The effect of the market losses can be seen in the comparison of single years' UAL payment. For example, FY 2029-30's payment according to the 2023 valuation is expected to be \$11.44 million higher than what was forecasted in the 2021 valuation. Thus, the 2023 Valuation chart below should not be relied upon as a predictor of future costs.



As a hedge against growing pension liability, in 2017, the Board authorized establishment of a pension prefunding account allowed under Section 115 of the Internal Revenue Code. The County has made annual contributions to this fund every year since. However, the standard \$1 million was eliminated from the FY 2024-25 Recommended budget as discussed earlier in this report. The payment was restored at the May 13, 2025 Board of Supervisors meeting. As of April 30, 2025, the pension prefunding account had a balance of \$9.13 million. This balance reflects losses that occurred during the first part of calendar year 2025 due largely to new tariff's imposed by the federal government. The market has corrected somewhat, and the County can expect some measure of gain as of May 31, 2025, as well as the \$1 million increase from the FY 2024-25 contribution. Funds in this account can be used at any time to pay pension costs, and, if left intact, would allow the County to fully pay its unfunded liability in approximately 15 years. This is ahead of CalPERS' current amortization schedule, which reflects paying off the unfunded liability in 2043. In future years, as the UAL payment declines or if revenues improve significantly, the County should consider increasing the Section 115 contribution to further accelerate the payoff of the UAL.

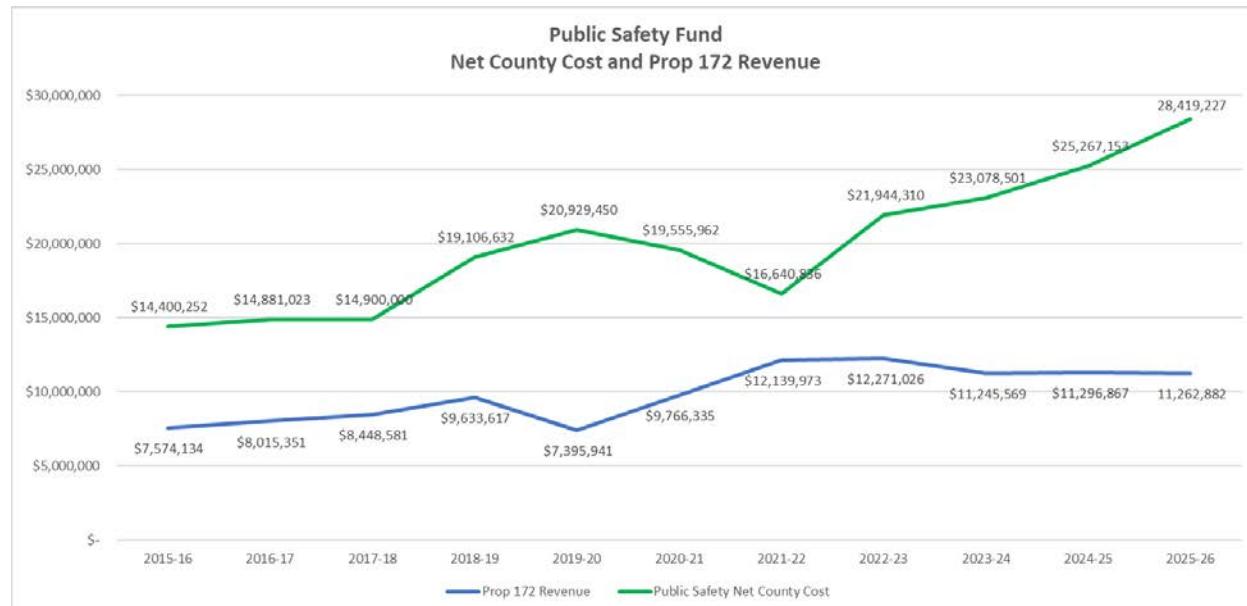
When the County set up its pension prefunding account with Public Agency Retirement Services (PARS), the County also set up an account for Other Post-Employment Benefit (OPEB) prefunding. As of June 30, 2024, the County's unfunded OPEB liability was \$11.9 million. In 2021, the County made its first contribution (\$200,000) to the OPEB account. In line with current policy and has continued to contribute \$100,000 per year for FY 2022-23 and FY 2024-25. The balance in the OPEB account as of April 30, 2025, is \$570,304. Similar to the pension prefunding contribution of \$100,000 was eliminated from the FY

2024-25 Recommended Budget but was restored as of May 13, 2025. This payment will also be paid prior to June 30, 2025.

Public Safety Fund – Increasing Costs and Future Revenue Concern

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. From FY 2019-20 to FY 2021-22, the statewide half-cent sales tax for public safety ("Prop 172") revenue increased significantly due to a shift to online retail sales during the COVID-19 pandemic that changed the percentage of the statewide Prop 172 collections allocated to Sutter County. This anomaly was not expected to last, and annual revenue has decreased by approximately \$1 million per year from the FY 2022-23 high of \$12.3 million. Absent significant new revenue, the County can expect ever-escalating costs to provide public safety functions at the current levels. That means increases in the General Fund cost of Public Safety programs and a reduction to other vital County functions.

The two largest departments within the Public Safety fund are the Sheriff (including the Jail) and the District Attorney. Both departments submitted reasonable budgets for FY 2025-26 to lessen the impact on other areas of government. The Board of Supervisors goal to maintain its commitment to Public Safety remains a challenge when balanced against all other mandated programs that compete for scarce General Fund discretionary resources. The widening gap shown in the graph below reflects the additional General Fund dollars that must be used to continue current service levels in Public Safety.



One continuing area of concern within public safety is the increasing cost to provide services in the “Beat 7” area, which has been annexed into the City of Yuba City. Law enforcement in this area of Yuba City is still provided by the Sheriff under an annexation and tax sharing agreement with the City finalized 25 years ago. In negotiating the 2000 agreement the County never anticipated that the Sheriff would continue to provide these services for a quarter of a century. Revenues provided through the tax sharing agreement do not fully support the cost. For FY 2024-25, the City of Yuba City provided \$503,108 in sales tax revenue per the agreement, which is \$72,617 lower than FY 2023-24. However, the cost of providing services is estimated at over \$1.8 million per year, not including vehicle and other equipment replacement. After the City of Live Oak, Beat 7 is the most active area for the Sheriff with over 5,000 calls for service annually. Continuing to provide a high level of service in this area effectively compromises services in other areas of the County. The City of Yuba City continues to be open to renegotiation of this portion of the 2000 tax share agreement, provided that new revenues are available to the City to support the cost.

Labor Market Concerns

In FY 2021-22 and 2024-25, the County reached agreements with the Deputy Sheriff's Association and the Sutter County Peace Officers' Association, providing significant equity increases, cost of living adjustments, and one-time lump sum payments for certain classifications. The cost of these increases, most of which will come from the General Fund, is in the millions of dollars annually. In January 2022, the County came to agreement with the Professional Firefighters Association, providing equity adjustments and one-time lump sum payments. While the employees covered under this agreement are within CSA-F, dedicated funding in this special district is insufficient to sustain positions, and the County allocated \$1.3 million in one-time ARPA funds in FY 2024-25 and \$2.1 million in FY 2025-26 to sustain services. The inability to recruit and retain employees across all departments remains a problem. Notably, Sutter County's eroding place in the labor market due to low wage levels makes providing all services difficult. Most County jobs require at least some college education, with many requiring bachelor's and even advanced degrees. Qualified, trained staff are increasingly difficult to place in County positions, particularly in the areas of medical, counseling, social work, accounting, law enforcement, firefighting, engineering, planning, and management positions. Department Head salaries are an average of 30% below Sutter's comparable counties, and Department Heads often oversee staff that is less experienced and smaller than comparable counties, but with a similar workload. In order to stay reasonably close to the market and be able to recruit and retain quality staff, the County may have to raise wage levels while scaling back service levels to stay within its financial constraints.

Impact of State Budget Challenges at the Local Level

For decades, it has been a common practice for the State of California to find ways to leverage local resources when it is in trouble financially. From 1991 “realignment” of certain health and human services programs to the Education Revenue Augment Fund (ERAF) shift in 1992 to the “triple flip” in 2004, to 2011 Criminal Justice Realignment that created “local prisons,” the state has looked to local government, and especially to Counties, to solve many of its budget problems. Proposition 1A in 2004 established a

constitutional protection of county funds from direct grabs, so the state has found other ways to improve its financial situation at local government expense. Recent decisions to impose fines to counties that place defendants who are incompetent to stand trial in state hospitals, to divert MHSA funds away from local governments to statewide administration and housing initiatives, and to widen the number of people who are conserved locally for behavioral health issues without adequate additional resources are examples of state intervention in local government operation without local government consultation or consent. With a FY 2025-26 state budget deficit that the Legislative Analyst estimates at close to \$12 billion and only a portion of that solved within the Governor's revised May budget, the County can expect more pressure on local resources and programs. The Board has adopted a budget policy of not backfilling cuts in state programs with local, discretionary funds, but that will become more and more difficult as the state takes away local autonomy and governments are left without resources to address local issues, including homelessness.

Individual departments' budgets have been built with information as of the beginning of May, but department heads must closely monitor state funding allocations and propose adjustments to appropriations should revenues not materialize as planned. There is no room for the General Fund to absorb losses in state funding.

County Facilities

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 at a high level. 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 the cost of abandoning these buildings and purchasing existing buildings elsewhere.

County staff continues work on the comprehensive Facilities Master Plan to identify current and future facility needs. Once completed, this plan can be used as the basis for an AB 1600 Study, so the County can update its Development Impact Fees in FY 2025-26. 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, 1160, and 1190 Civic Center Boulevard in Yuba City.

A "Public Safety Campus" is recommended around the 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 had been recommended for the Gray Avenue property the County purchased in 2021, although due to cost escalation, this is no longer feasible. In February 2023, the Board voted to move forward with the Surplus Land Act process for Gray Avenue and other county-owned properties. This will allow for more flexibility in development of the property or even outright sale if terms are favorable. HHS continues to seek ways to move out of leased space and consolidate

services in fewer locations, with a number of county-owned properties under consideration.

One particular challenge continues to be how to address the aging Clerk-Recorder building at 433 Second Street in Yuba City. This building is over a century old and needs upgrading, including leveling the floor. In FY 2025-26, County staff will prepare new cost estimates to upgrade the existing building and compare those with the costs of moving to another location.

The Board of Supervisors made the decision more than a year ago to sell a number of surplus properties. While most of the proceeds will go to special revenue funds (e.g., Airport, Community Development Block Grant), the largest and most valuable property is the former Kmart building located on Gray Avenue in Yuba City. This property is currently on the market for sale, although the County does not need to sell the property immediately. Currently, this property generates revenue in excess of upkeep costs and is often used by local nonprofit organizations for business purposes. Once the property is sold, it will generate millions in one-time revenue that can be reinvested into other County facilities, providing more efficient space and addressing long-term growth needs.

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. A survey conducted by the County in 2022 indicated that the impact of homelessness is one of citizens' highest concern. 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 built the Better Way shelter at 1965 Live Oak Boulevard, which includes housing as well as supportive services to move people out of homelessness. As always, the goal remains to address homeless individuals' barriers to stable living and get them into permanent housing. Since FY 2020-21, the County has spent more than \$6.3 million to address the needs of homeless individuals. For FY 2025-26, the total cost is budgeted at just over \$5 million with \$1.1 million of that cost coming from the General Fund. This doesn't include funding in other departments, such as the Sheriff, Development Services, and General Services for enforcement and cleanup activities related to homelessness.

The County has seen significant success in several areas as a result of the activities. Better Way temporary housing has been successful in placing individuals in permanent housing and providing support to ensure that those individuals continue to a stable residence. Habitat for Humanity provides housing and supportive services to older adults and veterans at Harmony Village, an award-winning partnership between the County and Habitat using state and federal funding to purchase and operate the former Baymont Hotel south of Yuba City. The Sutter County Sheriff, Development Services and General Services have been successful at eliminating homeless campsites and abandoned

vehicles and RVs along Second Street in Yuba City and in the Second Beach area in Robbins. These departments continue to monitor the area, ensuring that homeless individuals do not move back in. The County constructed an overnight camping area to provide a place of rest for individuals yet to be housed. Finally, the County continues with the Resource Conservation District (RCD) on plans to revitalize the river bottom area along the Feather River for public recreational use and, in FY 2023-24, provided \$30,000 to the RCD for a consultant to seek out grants for this project. Finally, the U.S. Supreme Court decision "City of Grants Pass v. Johnson" could provide more legal remedies allowing local governments to enforce "no camping" ordinances on local streets and roadways, open spaces, and outside businesses.

Failing Services Districts

Two south county services districts, Waterworks District 1 (Robbins) and Rio Ramaza Services District both have failing wastewater systems. For years, the cost of maintaining the systems has exceeded fee revenue collected from service users. Both are nearing the end of the financial resources to support ongoing services. For Rio Ramaza, the Recommended Budget includes \$100,000 in General Fund dollars to be used specifically toward legal and other costs to dissolve the district, which now only contains 9 connections. This would leave homeowners without wastewater service, so a solution must be found using septic systems or other means. For the community of Robbins, septic systems are not a viable solution due to water table issues. On behalf of this special district, the County has applied for Federal USDA funding to rebuild the wastewater system. It remains to be seen whether the district will be successful in obtaining a grant. If a grant is not awarded, the County will need to propose an alternative that may include fee increases.

Economic Development in South County and Beyond

The Sutter Pointe Development comprises 7,500 acres located in the portion of land north of the Sutter County and Sacramento County line and south of Sankey Road. The 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 to two K-8 schools. The County continues to work 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. The Lakeside developers have nearly completed the wastewater infrastructure for the first phase of the development and the County hopes to be able to issue building permits in FY 2025-26.

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, which is still the case. 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. This will also bring the opportunity for construction of sales distribution centers that would increase property tax and sales tax revenues to the County. However, full

build-out is likely decades away as the “Sankey Gap” levee area currently does not provide flood protection for some areas of the specific plan.

Beyond Sutter Pointe, there is limited opportunity for commercial development in the unincorporated areas of Sutter County due to 68% of the land being in a federal or state flood zone. With few exceptions, the majority of future development will have to be within the south area of the County, so investment in infrastructure is crucial to future revenue growth.

The County currently contracts with an economic development firm to provide oversight of Sutter Pointe-related economic development tasks including outreach to developers and brokers, permitting oversight, infrastructure assessment and stakeholder meetings. Goals for this contract include attracting commercial and industrial development to Sutter Pointe to provide jobs to the community and increase property and sales tax revenue to the County.

Summary

The Recommended FY 2025-26 Budget represents a spending plan that is fiscally responsible and continues to be responsive to the community's needs, despite significant ongoing financial challenges in both the current and future budget years. The County's dedicated employees continue to demonstrate 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 and Budget Lead Laura Granados, Deputy County Administrator Jamme Yang, and Extra Help Assistant County Administrator Leanne Link and Information Technology staff who have been extremely helpful in providing technical support. Auditor-Controller Nathan Black, Assessor Kathy Scriven and their staffs 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, as well as 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 1,100 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, the 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

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