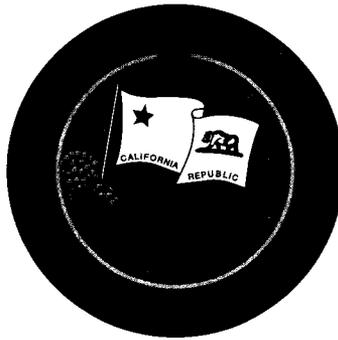


#1863

COUNTY OF SONOMA
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April 20, 2004

GRAND JURY

AUG 31 2004

TO: The Honorable Allan Hardcastle
Presiding Judge, Sonoma County Superior Court
FROM: Sonoma County Board of Supervisors
SUBJECT: **Response to Interim Report of the 2003-2004 Grand Jury**

BOARD OF SUPERVISORS RESPONSE TO THE 2003-2004 GRAND JURY INTERIM REPORT

Sonoma County Budget Policy

Recommendations: Pgs. 2-3

RI That the Board of Supervisors make a philosophy statement on how or whether the Board anticipates annual surpluses and the building of reserves in establishing the annual budget, or the drawdown of reserves in deficit situations. This statement should require that funding and spending options be considered in the building or drawdown of reserves in the development of the budget.

Response:

This recommendation has been implemented.

On March 23, 2004, as a part of the annual Budget Policy Workshop, the Board of Supervisors approved a collection of financial policy statements which were updated to provide guidance for the development of the FY 04-05 budget. These statements addressed the Grand Jury's recommendation and more. The collection of approved financial policy statements will be published each year in the County Budget and are attached to this letter for reference. In addition, the County Administrator and County Auditor will be bringing back to the Board further options and recommendations for additional statements regarding reserve amounts and associated policy in the next several months.

For the FY 04-05 budget, we anticipate some significant reductions associated with the state budget crisis. The Board directed staff to prepare a list of county reductions which will be considered in order to address the impact on the county budget from state actions. The Board also approved the use of up to \$14 million or 2/3's of the available discretionary reserves in order to implement the reductions over a two-year period.

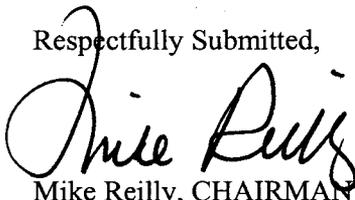
R2 *That the Board of Supervisors engage an independent budget analyst or independent accountancy firm which reports directly to the Board, to annually advise the Board on the accuracy of its budget estimates and the use of reserve funding and spending options in its implementation.*

Response:

We partially agree with this recommendation and it has been partially implemented.

County staff have begun discussions with an independent accountancy firm for such consulting services. The County Auditor-Controller will manage the contract and the consultants will report to the County Auditor-Controller. We anticipate engaging these consultants for use beginning with the FY 04-05 budget and will consider similar reviews in the future.

Respectfully Submitted,

A handwritten signature in black ink that reads "Mike Reilly". The signature is written in a cursive, flowing style with a large initial "M".

Mike Reilly, CHAIRMAN
Sonoma County Board of Supervisors

c: The Honorable Judge Mark Tansil
Eeve Lewis, County Clerk, County of Sonoma
Denise Gordon, Executive Officer of the Superior Court

Sonoma County Financial Policies Updated for FY 04-05 Budget Development

Balanced Budget

- The budget must balance resources with expenditure appropriations. The County must live within its own means and avoid disturbing other local jurisdictions' revenue sources to resolve its deficiencies. Furthermore, any deviation from a balanced budget is not permitted by the California State Government Code, which states: " In the proposed and final budgets the budgetary requirements shall equal the available financing" (Government Code §29009).
- All County departments/agencies must submit proposed options for reducing 10% of their net county costs as part of their annual budget submittal. These reduction options will be the primary source for balancing the County Administrator's proposed budget as submitted to the Board of Supervisors during difficult financial times. Reduction options will be accompanied by each department's analysis of the impact on services. Depending upon state budgetary impacts on Sonoma County, additional reductions may be requested from the County departments.
- County departments and agencies will receive monthly reports which compare actual revenues and expenditures to budget. Mid-year and third quarter reports of actual revenues and expenditures, with projections for the remainder of the year compared to budget, will be submitted by departments to the County Administrator. Recommendations for any necessary budget adjustments are taken to the Board.

Long Range Planning

- Annual budgets will not be increased to the point that on-going operating costs become overly reliant on cyclical or unreliable one-time revenues.
- Annual budgets will be compiled with long-term sustainability in mind, except as part of a Board approved plan in response to unilateral state budget actions that may include reducing costs, over a specified number of years, to within available on-going revenues.
- Proposed new services, public facilities, significant technological changes, and major strategy changes should/will be analyzed for their long term impacts on operations, funding, liability and maintenance before seeking Board approval.
- The County Administrator's office, in conjunction with the County Auditor-Controller's office, will submit a multi-year financial projection and solicit budget policy direction prior to compiling the Proposed Budget.
- Budget growth will be based on 3-year projections of revenues to anticipate and minimize short-term fluctuations in revenues.
- One-time funding sources (i.e. fund balance, cyclical increases to revenues, grants) will be used to fund one-time expenditures (i.e. fixed assets, infrastructure, grant programs, Economic Uncertainty Reserves, and special one-time needs programs). An exception to this policy will be when reducing ongoing costs in accordance with a Board approved multi-year plan to reach a new reduced ongoing financing base as a result of state budgetary action. This plan will be called out separately in the budget message.

- Sonoma County will create and maintain a prudent level of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. Reserves will also be created and maintained to fund anticipated future one-time expenditure needs and to allow time for the County to respond to major actions of the State of California that materially affect the County's financial position.
- Fund balance, created as a result of actual revenue and expenditure deviations from the budget, will be used to achieve and maintain the County's reserve goals and to balance the next year's budget. Reliance upon fund balance for budget balancing will be monitored and not materially deviate from past actual activity.

Asset Inventory/Protection

- Sonoma County will regularly assess the condition of its assets that support delivery of county services (i.e. public facilities, infrastructure, technology, vehicle fleet, etc.) and plan for their maintenance and eventual replacement.
- Assets with an initial cost of more than \$5,000 will be capitalized. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Capital assets used in operations will be depreciated or amortized using the straight-line method over the lesser of the capital lease period or their estimated useful lives.
- The Board requires all departments to certify a detailed listing of all fixed asset inventory within their possession no later than December 15 of each year.
- Capital replacement funds, will be used to accumulate financial resources for future replacement of assets (mainly vehicles and equipment) that will be retired from service.

Revenue Management

- Sonoma County will continue to advocate for more discretion over its revenue sources and to diversify and maximize discretionary revenue sources in order to resist state erosion to local revenues and improve the County's ability to manage individual revenue fluctuations.
- Programs financed by charges for services, fees, grants, and special revenue fund sources shall pay their full and fair share of all direct and indirect costs to the extent feasible and legally permitted.
- Departments requesting new or increased revenues from fees, permits and user charges shall submit these requests to the Board of Supervisors for consideration during the Board's annual fee hearing process. Requested fee increases shall include annual service improvement plans to identify efficiency and productivity measures taken or planned to minimize the level of rate increases, while improving customer service. If permissible by law, fees and charges should cover all costs of the services provided, unless otherwise directed by the Board, to provide for public benefit.
- Staff will use conservative but defensible estimates for major revenue sources and not unduly anticipate changes in revenue trends.

Expenditure Management & Control

- Sonoma County, in conjunction with employee groups, will consider salary and benefit cost saving programs (i.e. Mandatory Time Off, Voluntary Time Off) in lieu of service reductions or layoffs.
- Federal and State program reductions will not be backfilled with County discretionary revenues except by Board direction. The Board typically does not backfill these programs due to their sheer size and magnitude on the County's financial position.
- Board policy direction is required prior to changing one-time expenses in to on-going expenses. In addition, departments will not engage in internal cost shifting to the County General Fund.

Investment and Debt Management

- Other than amounts held with trustees under bond indenture or other restrictive agreements, the County's cash and investments shall be invested by the County Treasurer. The Treasury Oversight Committee has regulatory oversight for all monies deposited in the Treasury Pool. Such amounts are invested in accordance with investment policy guidelines established by the County Treasurer and reviewed by the Board. The objectives of the policy are, in order of priority, safety of principal, liquidity, and yield. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.
- Debt is incurred for the purpose of spreading capital project costs to the years in which the improvement will benefit. Debt is also incurred to reduce future costs such as refinancing (pension obligation bonds, general obligation bonds, certificates of participation) at lower interest rates.
- Sonoma County will not exceed its legal maximum debt amount. This amount is calculated annually based on 2% of the county's total assessed valuation. (Sonoma County currently utilizes approximately 2% of this legal maximum, leaving a 98% debt margin.)