



OFFICE OF THE COUNTY EXECUTIVE

County of Sonoma

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DATE: May 29, 2026

TO: Members of the Board of Supervisors and Board of Directors

FROM: David Guhin, County Executive

SUBJECT: FY 2026-27 Financial Policy Updates

This year, the County Executive recommends the following changes to the financial policies:

- Adding a new policy in the Long Range Planning section to codify the description, purpose, and contributions for the Section 115 Pension Trust. Beginning in FY 2026-27, with Board approval/direction, an ongoing contribution equivalent to 2.0% of pensionable payroll will be deposited into the Pension Trust.
- Updating the Treasury Management section to remove references to the Treasury Oversight Committee as suggested by the Auditor-Controller-Treasurer-Tax Collector and to clarify the objectives of the County investment policy. These changes do not impact the management of the Treasury.
- Updating the language regarding the maximum reserve level for the FEMA Audit Reserve has been updated for clarity and flexibility.
- Additional non-substantive administrative changes to reflect current fiscal practices.

Additionally, there are minor administrative updates to the Community Investment Fund Policy to update the reference from "County Administrator's Office" to "County Executive's Office."

Attachments:

A – Financial Policies

B – Community Investment Fund Policy

FINANCIAL POLICIES FOR FY 2026-27 BUDGET DEVELOPMENT

Annually, the Board of Supervisors/Board of Directors provide policy direction to guide the County Executive in the development of the Recommended Budget. The policy document is organized into basic fiscal principles and general government accounting standards.

BASIC FISCAL PRINCIPLES

Balanced Budget and Fiscal Discipline

- 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 recommended, adopted, and final budgets the funding sources shall equal the financing uses." (Government Code §29009).
- Per the State's County Budget Act, the Board of Supervisors must adopt a "statutorily" balanced budget; however, to ensure ongoing sustainability, the County of Sonoma should strive to adopt a "structurally" balanced budget. A budget is statutorily balanced when total estimated financing sources (beginning fund balance plus revenues) equal the total appropriation (expenditures plus ending fund balance). At no time shall spending in a given year exceed total current revenues plus any fund balance carryover from the prior year. A statutorily balanced budget utilizes beginning fund balance as a financing source. In contrast, a structurally balanced budget matches total ongoing expenditures to the annual estimated revenues. In a structurally balanced budget, beginning fund balance may not be used as a financing source for ongoing expenditures. As noted in the Long Range Planning section below, the County's goals are to maintain annual expenditure increases at a conservative growth rate, and to limit expenditures to anticipated annual revenues. Ongoing expenditures shall be provided based on sound anticipated ongoing revenue and not include "one-time" items such as capital outlay, projects, or temporary program funding. Sound anticipated ongoing revenue is recurring revenue, such as, taxes and fees. As part of the FY 2017-18 Budget Adoption, the Board established a new fiscal objective of reducing reliance on fund balance for operating purposes. Therefore, the FY 2026-27 recommended budget aligns annual operating expenditures with annual operating revenues.
- All County departments/agencies must, when directed by the County Executive, submit recommended options for reducing their net county costs and/or other discretionary county revenue sources as part of their annual budget submittal. These reduction options will be the primary source for balancing the County Executive's recommended

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.

- Mid-year and third quarter reports of actual revenues and expenditures, with projections for the remainder of the year compared to revised budget, will be submitted by departments to the County Executive, and on to the Board of Supervisors with recommendations, if necessary, for current year budget adjustments.
- All positions held vacant for 12 months or more will be reviewed by the County Executive and recommended for deletion ~~deleted~~ as part of the annual ~~recommended~~ budget process, unless maintaining allocation is justified.

Long Range Planning

- Recognizing cyclical economic downturns will occur in the future, and to maintain fiscal sustainability, program budgets will not be automatically restored as a result of fiscal recovery and/or discretionary revenue growth. Instead, a review of the current public needs compared to efficiencies implemented must be completed before program and/or service restoration or expansion is considered. Departments may make restoration requests through the "add-back" process, and service/program expansion requests are made through the "program change request" process.
- Annual budgets will not be increased or changed to the point that ongoing operating costs become overly reliant on one-time or cyclical, unreliable revenues.
- Annual budgets will be compiled with long-term sustainability in mind to operate within available ongoing revenues, except as part of a Board of Supervisors approved plan in response to unilateral state budgeting actions that may include reducing costs over a specified number of years.
- Proposed new services, public facilities, significant infrastructure and system changes, and major strategy changes should/will be analyzed for their long-term impacts on operations, funding, liability and maintenance before seeking Board of Supervisors approval. New programs or services will generally not be recommended unless they further Strategic Plan goals, objectives, or strategies; are provided with a reliable funding stream sufficient to finance their costs; and the Board of Supervisors can be assured the County can control both the quality and level of services provided.
- The County Executive, in conjunction with the County Auditor-Controller, will submit a five-year, multi-year financial projection and solicit budget policy direction prior to compiling the recommended budget.
- 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 that, if it is necessary to reduce ongoing costs in accordance with a Board of Supervisors approved multi-year plan to reach a new reduced ongoing financing base, one-time sources may be used to more gradually right size the organization's budget to the new, reduced funding available. This plan will be called out separately in the budget message.

- The County and other Government Agencies governed by the Board of Supervisors support the funding of the employee retirement system each year at a ratio of between 95%-105% actuarial assets to liabilities. The County Executive shall work with the Retirement System Administrator to develop a forecast of financing required for the County (and other Government Agencies governed by the Board of Supervisors) and will include options to achieve the desired funding levels along with each recommended budget.
- In order to further the Board's pension reform goals, the County will implement an ongoing, structured approach for pre-paying unfunded pension liabilities on an annual basis. Effective Fiscal Year 2019-20 a baseline annual pre-payment contribution equivalent to 0.5% of pensionable payroll will be made (above and beyond the required employer contribution rate). In order to maximize employer cost avoidance as a result of pension discount costs, the pre-payment will be applied to the longest outstanding layers of the County's share of Unfunded Actuarial Accrued Liability, as determined by annual actuarial valuations of the Sonoma County Employees' Retirement Association (SCERA). ~~In addition, the Board will consider use of available one time funding to make additional pre-payments as funding is available.~~
- The County has established a Pension Trust as part of a Section 115 Combination Trust to proactively accumulate funding for flexibility in meeting future pension obligations. Its intended uses include funding of future ad hoc retiree cost of living adjustments (COLAs), when funding is available and at the Board of Supervisors' discretion. The Pension Trust may also be used to make actuarially determined pension contributions to SCERA. Beginning in FY 2026-27, an ongoing contribution equivalent to 2.0% of pensionable payroll will be deposited into the Pension Trust. As capacity previously allocated to retirement benefits becomes available through the funding of Other Post-Employment Benefits, pension liabilities, or through the completion of Pension Obligation Bonds, the Board may consider increasing ongoing contributions to the Pension Trust.
- In addition to the contributions described in the bullets above, the Board may consider use of one-time discretionary funding to make additional contributions toward pension liabilities as funding is available. Staff will recommend whether to apply this funding directly to unfunded pension liabilities or to make contributions to the Pension Trust when such funds are available.
- In order to avoid significant increases in deferred maintenance costs for County facilities, the Board of Supervisors will appropriate, forty percent (40%) of all new property tax growth, which is above the percentage growth assumed in the Adopted budget — to the Capital Projects Budget to be used towards addressing deferred maintenance of County facilities.
- In order to keep pace with County Road Network construction cost increases, the General Fund contribution to the Pavement Preservation Program shall be increased by up to 5% annually after considering economic uncertainties and based on financial factors such as the annual projected property tax growth rate and the average annual Consumer Price Index.

Expenditure Management and Control

- Sonoma County, in conjunction with employee groups, will consider temporary salary and benefit cost saving programs (e.g. Mandatory Time Off, Voluntary Time Off) in lieu of service reductions or layoffs when the fiscal problem is of a temporary nature where one can reasonably predict when the fiscal problem will end.
- Federal and state program reductions will not be backfilled with County discretionary revenues except by Board of Supervisors direction. The Board of Supervisors 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 into ongoing expenses. In addition, departments will not engage in internal cost shifting to the County General Fund.

Treasury 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 of Supervisors. 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, as well as their maximum concentrations, minimum credit requirements and maximum maturities. ~~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 has no debt applicable to the legal maximum debt, leaving a 100% debt margin.
- Debt issuance and management is also subject to a separate set of policies established by the Board of Supervisors and available from the Auditor-Controller-Treasurer-Tax Collector's office.

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 which will include cost recovery towards future assets and/or system replacement.

- 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 or at a separate hearing. 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 of Supervisors, to provide for public benefit.
- Staff will use conservative but defensible estimates for major revenue sources and not unduly anticipate changes in revenue trends.
- Proposition 172 Public Safety Distribution – Annually, the baseline growth shall be determined as the Consumer Price Index for All Urban Consumers-San Francisco-Oakland-San Jose for the 12-month period ending the previous December 31. This will be applied to the prior year budget for each department that received funds in the previous fiscal year, to establish the new adjusted base. Growth will be any funds projected or received that exceed the adjusted base. Growth shall be split 50% fire services and 50% law enforcement, until the point in time that fire services is receiving 8% of the funding. At that point in time, the Board may consider, via Board action, allocating growth in a similar manner until Probation reaches a desired share. Otherwise and thereafter, growth will be provided on a proportional basis and become the annual adjusted base. If there is a decline in funding (negative growth), this will be allocated proportionally using the current year adjusted base allocation ratios.
- Shared service contracts with other political jurisdictions should include full cost recovery for any portion of services provided by the County, including recovery of full future retirement costs of County employees who act as employees for the other jurisdiction, unless otherwise directed by the Board of Supervisors. Any contract being brought to the Board that does not achieve full cost recovery should be accompanied by specific information about what level of subsidy is being provided and a justification for doing so.
- Community Investment Fund policies – Community Investment Fund Policies are approved by the Board of Supervisors and are available online at this website: <https://sonomacounty.gov/administrative-support-and-fiscal-services/county-executives-office/community-investment-fund-program/community-investment-program-policy>.

Minimum Fund Balance Policies

- 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. Funds will be assigned and balances will be maintained to finance anticipated future one-time expenditure needs and to allow time for the County to respond to major actions of the State of California, the Federal government, economic downturns or emergencies that materially affect the County's financial position. The County Executive, Auditor-Controller-Treasurer-Tax

Collector and department staff will review fund balances annually as part of the budget development process. This review will include evaluating projected growth of each Governmental fund. In cases where uses exceed growth, staff will determine when fund balances are projected to be exhausted and plan accordingly.

- **General Fund Reserve** – The Board will maintain a minimum level of unassigned General Fund Reserve balance equal to 1/12 (8.3%) or 1 month of annual General Fund revenues. Consistent with best practice recommendations from the Government Finance Officers Association of the United States and Canada, the County will strive to maintain a total unassigned General Fund Reserve balance equal to 1/6 or 2 months of annual General Fund operating revenues.
- **Replenishing General Fund Reserve**- Anytime the Board authorizes drawdown of Reserves, staff will present a re-payment schedule which shall include the amount of state/federal reimbursements expected to be received.
- **FEMA Audit Reserve** – The Reserve is established to ensure that the County has adequate resources set aside to pay for any claims that are deemed ineligible by the Office of Inspector General. Based on a preliminary risk assessment, staff recommends maintaining a reserve equal-up to a maximum of 20% of total FEMA reimbursements. The FEMA Audit Reserve will be categorized as assigned fund balance for the funding source of each project. Annually the County Executive and Auditor-Controller-Treasurer-Tax Collector will review FEMA reimbursements received and calculate the maximum necessary reserve, including increases due to new funding received or decreases if funding is no longer at risk of being deemed ineligible. At budget hearings, staff will present recommendation on the reserve adjustments to the Board of Supervisors and receive direction on the use of funds available due to a net decrease in the calculated reserve, if any.
- **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 fiscal goals.
- **Tax Loss Reserve Fund (TLRF)/"Teeter" Fund** - The County’s annual budget will program \$3,404,148 from this source as a general purpose revenue. In addition, this fund shall maintain as a restricted reserve an amount equal to 1.5% of the levy. The County Executive in conjunction with the Auditor-Controller-Treasurer-Tax Collector may recommend the use of funds in excess of the established reserve to the Board of Supervisors for purposes approved by the Board during annual Budget Hearings.
- **Tobacco Securitization** proceeds shall be maintained in two separate funds. The first shall contain the portion of the proceeds to be used only for capital improvements and shall be used for those improvements that exceed the normal level of repair and replacement needed to maintain County facilities with priority funding for improvements to the Veteran’s Memorial Buildings and the completion of the Americans with Disabilities Act Transition projects. On the latter, funding will be available only AFTER all other funding sources have been exhausted. The second shall contain the portion of the proceeds that, once de-allocated, can be used for general government purposes. Given the one-time nature of these funds, the latter shall only be used for one- time investments as opposed to financing any on-going operating costs.
- **Refuse Franchise Fees** shall be accounted for in the same manner as other franchise fees in the County General Fund revenues. They shall be recorded in a separate account

in order to ensure that any fund balance does not roll into County General Fund carryover balance at year-end so that the County can designate use of the funds for solid waste obligations, roads infrastructure preservation, and other Board of Supervisors priorities. If used for road infrastructure preservation, these funds are not intended to supplant on-going County General Fund contributions nor are they intended to increase any external maintenance of effort requirements imposed by outside funding sources, but may be used to satisfy previously established maintenance of effort levels.

- **Tribal Development Impact Mitigation** funds shall be accounted for separately, so that when budgeting, only those monies received in the current year shall be relied upon for financing costs in the coming budget. The Board of Supervisors shall make a determination, as new tribal developments occur, on the best uses of these funds to mitigate impacts and maintain the high quality of life in surrounding or affected communities.
- **Health Services-Medical System Expansion** funds minimum reserve level is established at \$1 million. The Board of Supervisors recognized and confirmed the remainder of the fund balance will be spent in accordance with the Partnership Health Plan of California Memorandum of Understanding spending plan agreement. Health Services staff will coordinate with the County Executive's Office and the Partnership Health Plan to review and update the spending plan as a part of the annual budget.
- **County Health Plan-Economic Uncertainty Reserve** is established based on actuarial valuation to cover unforeseen changes in expenditures and/or revenues, Human Resources staff will provide fund balance use recommendations as part of the annual recommended budget while maintaining a minimum level of economic uncertainty reserve consistent with Actuary's valuation and as recommended by the County Executive.
- **Water Agency - Flood Zone 2A (Petaluma)** will maintain a minimum of 6 months of operating expenditures. Funds in excess of the minimum required may accumulate to address future capital needs as approved by the Board of Directors in the annual Capital Project Plan.
- **Water Agency - Water Transmission System** is to maintain a minimum of 3-4 months of operating expenditures. Funds in excess of the minimum required may accumulate to address future capital needs as approved by the Board of Directors in the annual Capital Project Plan.
- **Reinvest and Revitalization** funds accumulated from dissolved redevelopment project areas residual funds and asset liquidation distribution proceeds are segregated into a separate committed fund. Accumulated use of resources will be presented as part of the annual recommended budget. Funding should be considered first to continue or complete the public benefit originally intended by the former redevelopment project, second to benefit the community where the former project area was located, and third for economic development investments or other County needs as directed by the Board of Supervisors.
- **Roads** – One of the program's main sources of funding for maintenance services comes from gas tax. As a result of the frequent state formula allocation changes over the last five years, and to protect the County's General Fund resources, an operating reserve by

way of year-end unrestricted fund balance equivalent to a minimum of 3 to 4 months of baseline operating expenses will be maintained within the Roads special revenue fund. The amount for FY 2014-15 was established at \$5,000,000 which will be reviewed periodically against annual baseline operating budget.

GOVERNMENT ACCOUNTING STANDARDS

The accounting policies of the County conform to accounting principles generally accepted in the United States of America as applicable to governmental entities. Noted below are several accounting policies considered in budget development.

Fund Balance Classifications

Government Accounting Standards Board (GASB) pronouncements aim to improve the usefulness and understandability of governmental fund balance information. Presentation requirements provide clearly defined categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. This requirement only impacts governmental fund types (General, Special Revenue, Capital Projects and Debt Service). The following defines fund balance classifications and provides examples of fund balance amounts that would generally be reported within these classifications.

- **Non-Spendable Fund Balance** – Amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact. Examples include inventory, prepaid amounts, deposits, and any other amounts not expected to be converted to cash.
- **Restricted Fund Balance** – Amounts with constraints placed on use that are either (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Several of County Special Revenue and Debt Service Funds have restricted fund balances.
- **Committed Fund Balance** – Amounts that can only be used for specific purposes pursuant to constraints imposed by ordinance or resolution of the County's highest decision-making authority (Board of Supervisors) and that remain binding unless removed by an equally binding action.
- **Assigned Fund Balance** – Amounts that are constrained by the County's intent to be used for specific purposes. The intent can be established by the County's highest level of decision-making authority (Board of Supervisors) or by a body or an official to which the Board has delegated the authority (i.e. County Executive). The Board has delegated the authority to assign fund balance to the County Executive. This is the classification for the Capital Project Fund and a portion of the General Fund.
- **Unassigned Fund Balance** – The residual classification for the General Fund that includes amounts not contained in the other classifications. In other funds the unassigned classification is used only if the expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes (i.e. negative

fund balance). The General Fund is the only governmental fund that should report a positive unassigned fund balance.

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.

Normal maintenance and repairs are charged to operations when incurred. Betterments and major improvements that significantly increase values, change capacities, or extend useful lives are capitalized.

Capital assets include land, land improvements, buildings and improvements, machinery and equipment, infrastructure (e.g. roads, bridges, sidewalks), and intangible assets (e.g. land easements and computer software). Assets purchased or constructed are reported at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated acquisition value on the date of donation.

- Assets will be capitalized as summarized in the table below:

Capital Asset Type	Capitalization Threshold	Depreciation/Amortization Period
Land and Permanent Easements	All Costs	Non-Depreciable
Land improvements	\$100,000	15-50 Years
Buildings and Improvements	\$100,000	15-50 Years
Infrastructure	\$100,000	25-50 Years
Amortizable Intangibles	\$100,000	3-10 Years
Machinery and Equipment	\$5,000-\$25,000	5-15 Years
Other capital assets	\$5,000	Varies

- 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 of Supervisors requires all departments to certify a detailed listing of all fixed asset inventory within their possession no later than May 31 every year.
- Capital replacement funds will be used to accumulate financial resources for future replacement of assets that will be retired from service. In addition, when feasible, replacement funding contributions will be included in applicable service charges from all system users. Specifically, the policy covers the following major system categories
 - Building & Fixed Facilities - As part of the annual Capital Project Plan and no less than every 5 years, and guided by Comprehensive County Facilities Plan, the General Services Director will regularly assess and adjust funding requests for each facility. The funding contributions would be placed in separate funds for each set of facilities and managed by the assigned department or agency director in conjunction with the County Executive. Contributions for these funds will be included in service charge rates (including outside partner agencies) and grant costs where feasible and would be prioritized for available discretionary

funding in the annual budget process. Consideration will always be given to annual operational maintenance funding (as opposed to contributions for future major repairs) necessary to preserve health and safety and overall asset life. Project funding recommendations will follow the priority criteria in the current Administrative Policy 5-2 which is available for review at <https://sonomacounty.gov/administrative-support-and-fiscal-services/human-resources/employee-resources/administrative-policy-manual>

- Information Technology Assets
 - a. The policy directs the Director of Information Systems in conjunction with the County Executive's office to develop a plan to replace system components with the infrastructure contribution funding stream and potential one-time contributions within the remaining useful life of each component. The policy also directs a full infrastructure valuation of the computer and telephone communication systems every 5 years.
 - b. The Public Safety radio infrastructure replacement review and funding request is the responsibility of the Sheriff's Office in conjunction with General Services, Information Systems, and the County Executive.

Fund Types Used by the County

Governmental Fund Types

- **General Fund:** Accounts for all revenues and expenditures necessary to carry out basic governmental activities of the County that are not accounted for through other funds.
- **Special Revenue Funds:** A Special Revenue Fund accounts for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Sonoma County Special Revenue Funds include: Human Services, Health and Sanitation, Open Space Special Tax Account, and Roads, among other funds.
- **Debt Service Funds:** Debt Service Funds are used to account for financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
- **Capital Projects Funds:** Capital Projects Funds account for financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those in Proprietary Fund Types).

Proprietary Fund Types

- **Enterprise Funds:** Enterprise Funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed primarily through user charges; or (b) where the Board has decided that periodic determination of revenues earned, expenses incurred, and net income or loss is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds

- **Internal Service Funds:** Internal Service Funds (ISF) account for the financing of goods or services provided by one department or agency to other departments or agencies of the County or other governmental units on a cost reimbursement basis. A common use of these fund types is to account for the County’s self-insurance programs. The funding and budgeting methodologies the County uses for some of the self-insurance programs is described in the “Other Policies and Methodologies” section below.

The Accounting Basis Used in the Budget

The budget is developed on a modified accrual basis for governmental fund types (General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds), adjusted for encumbrance accounting. Appropriations for encumbrances are included and appropriations for expenditures against prior year encumbrances are excluded with the exception of Capital Project Funds.

Under the modified accrual basis, obligations are generally budgeted as expenses when incurred, while revenues are recognized when they become both measurable and available to finance current year obligations.

Proprietary fund types (e.g., Transit and Refuse) are budgeted on a full accrual basis. Obligations are recognized when incurred, and revenues are recognized when earned by the County.

OTHER POLICIES AND METHODOLOGIES

Other policies and methodologies that may be helpful for understanding the County’s budget:

Budgetary Amendments

After the budget is adopted, it becomes necessary to amend the budget from time to time. Department heads have the authority to amend budgets for changes within a category (e.g., Services & Supplies). County Executive approval is required for adjustments between categories (e.g., Services & Supplies to Fixed Assets) or between program budgets within the department.

Budgetary amendments that change total revenues or appropriations for a department require Board of Supervisors approval. These include: (1) the appropriation of revenues not included in the adopted budget; (2) reductions to estimated revenues and related appropriations when it is determined that the revenues will not be received; (3) appropriation increases supported by use of available fund balance or Appropriations for Contingencies; and (4) the transfer of monies or appropriations from one fund or department to another.

Use of General Fund Contingencies

The County will commit a portion of the General Fund general purpose revenues as a Contingency Reserve to provide the Board of Supervisors: (1) for unforeseen events causing

increased County costs during the fiscal year; (2) funding to invest one-time funds into potential opportunities that support the Board's Strategic Priorities; and (3) fee waivers. The Contingency Reserve should not be used to support recurring operating expenditures outside of the current fiscal year. Unless there is a justified unavoidable timing need, any decision to use Contingencies should only occur at the Board's annual budget hearing, and during mid-year budget updates.

Funding Methodology for Self-Insurance Program

The following describes the funding and budgeting methodologies the County uses for some of the self-insurance programs.

The funding methodology for the workers' compensation and the liability insurance programs is designed to establish charges to departments to finance the current year costs at the 70% confidence level as estimated annually by an actuary. The Health ISF (county medical insurance plan) is funded based on actuarially determined trends in claims payments with the intent of maintaining a year-end fund balance equivalent to anticipated costs necessary to close out each year's activity and to cover expenses in excess of projected levels due to unexpected increases in the number or size of claims. For workers' compensation and liability insurance programs, cash reserves above and below the 70% confidence levels for outstanding liabilities for individual insurance funds are amortized on a rolling three-year basis, by decreasing or increasing rates by one-third of the difference, in accordance with Board policy. The rolling three-year amortization policy was implemented to: 1) alleviate large fluctuations in rates caused by changes in actuarial estimates or funding status; 2) facilitate long-term rate planning; and 3) provide consistent financial policy for the internal service funds.

For budgeting purposes, claims expense for the workers' compensation and liability funds are based on the actuary's estimated loss for the budget year at the 70% confidence level. In situations where this is not expected to provide sufficient appropriations to cover actual cash payments, additional funds are budgeted under Excess Claims Expense. Claims expense for the Health ISF is based on the actuary's estimated loss for the budget year.

At the time the budget is prepared, the total year-end outstanding liability for the budget year is not known. When this information becomes available from the actuary during the budget year, the change in the total outstanding liability is recorded to the budgeted account Accrued Benefits Adjustment in order to conform to accounting principles. This budgetary figure is used merely to designate cash reserves to cover the outstanding liability and does not represent a cash revenue or expenditure. The Accrued Benefit Adjustment for liability and workers' compensation is budgeted at 10% of the total liability. The accrued benefit adjustment for the County Health Plan is budgeted using the most recent 1-year trend and 10% of the total liability. The total liability is based on the prior year estimate of total liability projected forward using the most recent claims expense trend.

Within the ISF insurance funds, the budgetary information presented is not readily comparable on a year-to-year basis because expenditures and use of cash reserves are related to past years' claims experience, as well as the fiscal year for which the budget is presented. Claims payments

fluctuate depending on year of settlement, rather than occurrence of the claim, so payments may be made in excess of a current year's expected claims costs. In addition, actuarial estimates of total liability may vary substantially from year to year, depending on claims history, population changes, legislation, and other factors.

Adopted 07/08/1986

Revised 10/02/2001; 10/08/2002; 09/12/2003; 02/03/2004; 04/18/2006; 04/17/2007; 05/10/2011; 03/27/2012; 6/10/2013; 9/16/2014; 2/10/2015; 5/3/2016; 6/13/2016; 10/3/2017; 6/5/2018; 4/16/2019; 8/6/2019; 6/13/2023; 6/10/2025; 9/16/2025; 6/XX/2026

Community Investment Fund Policy

I. POLICY STATEMENT

The Sonoma County Transient Occupancy Tax (TOT or Hotel Bed Tax) was established in 1965 and is authorized under State Revenue and Taxation Code Section 7280. TOT, a general tax, is currently levied at a rate of 12%, a rate established in 2016 by the voter-approved Measure L. TOT revenue is allocated 25% to the General Fund; 50% to the Community Investment Fund; and 25% to the Measure L Fund. This Policy allocates funding for both the Community Investment Fund and the Measure L Fund.

The Community Investment Fund Program, established in 1986 as the Advertising and Promotions Program, allocates a portion of the Transient Occupancy Tax to encourage economic development, community engagement, and culture in the County through a variety of grant award and funding avenues. The program provides grants to community-based organizations for a wide range of activities including economic development, community and countywide events, and advertising and promoting the county as a visitor destination with the goal of advancing economic growth through tourism. Additionally, the program provides grants to address impacts on safety due to tourism and to enhance community services throughout the county. The program provides funding to the Regional Parks Department, the Economic Development Collaborative, and additional county activities.

II. COUNTY DEPARTMENT FUNDING

See Table 1 for funding amount information.

1. Economic Development Collaborative
Funds support the Economic Development Collaborative in their mission to enable local businesses to maintain or expand their operations, including \$125,000 for Creative Sonoma to award to the arts community. The Economic Development Collaborative will receive a contribution adjustment equivalent to that received by General Fund departments to account for changes to salary and benefits costs, contingent on funding availability in the Community Investment Fund.
2. Permit Sonoma Fuels Reduction and Landscape Resiliency Campaign
Funding will support the Permit Sonoma vegetation management program including chipper program operations, and public education and outreach to promote landscape and community wildfire preparedness.
3. Regional Parks
Funding will support parks operations, maintenance, and improvements.
4. County ~~Administrator's Executive's~~ Office Strategic Initiatives Division
Funding will support the Strategic Initiatives Division of the County ~~Administrator's Executive's~~ Office to implement the Board's priorities within the Strategic Plan.

5. **Public Infrastructure Road Repair and Improvement Fund**
Funding will support projects included in the Sonoma County Public Infrastructure Roads Plan adopted by the Board. 20% of Measure L revenue will fund the Road Repair and Improvement Fund.
6. **Public Infrastructure Event Facilities Improvements**
Funding will support operations, maintenance, and improvements of County owned facilities that enhance recreational activities, including Veterans Buildings. The County Administrator's Executive's Office will identify funding priorities to the Board during the annual budget process as included in the Capital Projects recommended budget. 9% of Measure L revenue will fund Events Facilities Improvements.
7. **Community Development Commission Affordable Housing Fund**
Funding will support affordable housing projects. The Community Development Commission will identify funding priorities to the Board during the annual budget process as included in the Department recommended budget. 13% of Measure L revenue will fund the Affordable Housing Fund.
8. **Collections, Compliance, and Legal Services**
Funding will support County Departments (Auditor-Controller-Treasurer-Tax Collector, County Counsel, and Permit Sonoma) and external contract services who provide revenue and tax collection services, legal advice, and support compliance. Funding includes \$550,000 from the Community Investment Fund and up to 8% of Measure L revenue.

III. DISTRICT PRIORITIES

See Table 1 for funding amount information.

1. **District Priorities**
Funds may be allocated to events, organizations, and Supervisorial District priorities. Funding may be distributed through grants or assigned to County departments. See Appendix A for program requirements.

The funds available in this category include \$100,000 for each supervisorial district (\$500,000 total) from the Community Investment Fund and 10% of Measure L revenue to be allocated to each supervisorial district proportionate to the amount of Transient Occupancy Tax collected within the district in the previous fiscal year. Unused funds will be accounted for and available for use in future years. Organizations may make their requests directly to each Supervisorial District.

IV. COMMUNITY FUNDING

See Table 1 for funding amount information.

1. **Sonoma County Tourism**
Sonoma County Tourism (a private, non-profit 501(c)6 organization) funding is 1.25 percentage points of the first 9% of collected Transient Occupancy Tax. Funds will be allocated through a funding agreement approved by the Board of Supervisors and will be used for promoting overnight stays and creating a sustainable hospitality economy throughout the region.

2. Chambers of Commerce
Funding will be provided to Chambers of Commerce serving unincorporated areas of Sonoma County or who provide countywide services. Allocation of funds will be based upon an up to 10% match of membership dues and private cash contributions that are discretionary revenue to the chamber and are not associated with a particular event, function, or position. Chambers located in the unincorporated area of the county and those serving the entire county will be given priority and fully funded prior to funding consideration of municipal Chambers of Commerce. Chambers of Commerce may make their requests annually to the Economic Development Collaborative.
3. Fire Services Fund
Funding will support enhanced fire protection services in consolidated fire districts. Camping Transient Occupancy Tax collected by Regional Parks and 40% of Measure L revenue will fund the Fire Services Fund.
4. Public Infrastructure District Formation Funds
Rural areas of Sonoma County may at times experience an increased need for municipal services. Funds may be used for professional services to establish Special Districts that will enable communities to provide self-generated funding to address municipal challenges.

V. County Center Modernization and Satellite Service Centers

See Table 1 for funding amount information.

1. County Center Modernization and Satellite Service Centers
Funding will support costs of county center modernization and satellite service centers.

VI. Community Investment Fund Balance

1. Allocate any fund balance from the Community Investment Fund to General Fund priorities determined annually by the Board of Supervisors during Budget Hearings.

Table 1

Table 1: Community Investment Fund Policy Allocations – Funding source and allocation dollar amount or percentage. See above for descriptions.

	Community Investment Fund	Measure L Fund
Economic Development Collaborative	Adjusted annually (approximately \$4.3 million annually)	N/A
Permit Sonoma Fuels Reduction and Landscape Resiliency Campaign	\$900,000	N/A
Regional Parks	\$2,650,000	N/A
County Administrator's Executive's Office Strategic Initiatives Division	\$300,000	N/A
Public Infrastructure Road Repair and Improvement Fund	N/A	20% (approximately \$1.6 million annually)
Public Infrastructure Event Facilities Improvements	N/A	9% (approximately \$700,000 annually)
Community Development Commission Affordable Housing Fund	N/A	13% (approximately \$1 million annually)
Collections, Compliance, and Legal Services	\$550,000	8% (approximately \$600,000 annually)
District Priorities (see Appendix A for program requirements)	\$500,000	10% (approximately \$800,000 annually)
Chambers of Commerce (program coordinated by Economic Development Collaborative)	\$50,000	N/A
Sonoma County Tourism	1.25 percentage points of the first 9% of TOT revenue (approximately \$3.3 million annually)	N/A
Fire Services Fund	Regional Parks Camping TOT revenue (approximately \$300,000 annually)	40% (approximately \$3.2 million annually)
Public Infrastructure District Formation Fund	\$175,000	N/A
County Center Modernization and Satellite Service Centers	\$1,000,000	N/A

Appendix A

POLICY STATEMENT –District Priorities Funding

The funds available in this category include \$100,000 for each supervisorial district (\$500,000 total) from the Community Investment Fund Policy and 10% of Measure L revenue to be allocated to each supervisorial district proportionate to the amount of Transient Occupancy Tax collected by the district in the previous fiscal year. Unused funds will be accounted for and available for use in future years.

PROGRAM INTENT

The County of Sonoma invites organizations to apply for grant funding for local events that will support businesses or enhance culture, and organizations that provide a benefit to the community.

Funds in this category may be used for activities such as safety improvements, environmental impact mitigation, public safety, and other tourism mitigation activities, such as parking enforcement. Funds may be used for projects that benefit the community, or to support organizations that coordinate community improvements, such as the Municipal Advisory Councils.

The Board of Supervisors (Board) may award funding to County Departments or to Supervisorial Districts to complete priority projects. Funding may be used to cover salary and benefit costs associated with changed or additional staff, and other costs associated with added staffing such as office space.

GUIDELINES

District Supervisors will evaluate applications for Community Grants using the following criteria before bringing awards to the Board for approval.

- Events, organizations, and programs must meet at least one of the following criteria:
 - Enhance the cultural diversity and richness of Sonoma County
 - Provide a benefit to the community, the economy, or the environment
 - Promote Sonoma County and encourage visitors to frequent the County throughout the year
- Events must be held within the County of Sonoma

Applications are open year-round on the [Community Investment Fund Program](#) website.

Funding for staffing must be related to a Supervisorial District priority which provides a benefit to the community.

- Funding may be used for enhanced or changed staffing such as interns, support staff, or administrative management positions; positions allocated to a Supervisorial District will remain/be at-will
- Standard County processes and timelines must be followed with regard to classification changes, position allocation changes, and budgetary adjustments