

County of Santa Clara

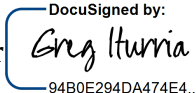
Office of the County Executive

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MEMORANDUM

TO: Honorable Board of Supervisors
Jeffrey V. Smith, M.D., J.D., County Executive

FROM: Gregory Iturria, County Budget Director  94B0E294DA474E4...

SUBJECT: Off-Agenda Report Regarding the Status of Reserves in the FY 20-21
Recommended Budget

DATE: June 15, 2020

On May 26, 2020, Agenda Item No. 9, the Board requested a report on reserves relating to the FY 20-21 Recommended Budget (Chavez).

Reserves are funds set aside for future allocation by the Board. Each reserve has a specific purpose and its establishment or augmentation is approved by the Board. As the county has grown over the last several years, so also have the number and value of reserves allocated throughout the budget process. Some reserves set aside one-time funds and others set aside ongoing funds for future use. All use of reserves must be approved by the Board via a budget modification.

The Administration's strategy to balance the FY 20-21 Recommended Budget includes the elimination of reserves where possible. These recommendations include the permanent elimination of some ongoing reserves and one-year suspensions of several ongoing reserves. Administration is also recommending liquidating several one-time reserves established in prior years to increase the fund balance available for use in FY 20-21. This report includes tables describing the reserves that Administration recommends liquidating, eliminating, or suspending as part of the FY 20-21 Recommended Budget.

Board of Supervisors: Mike Wasserman, Cindy Chavez, Dave Cortese, Susan Ellenberg, S. Joseph Simitian
County Executive: Jeffrey V. Smith

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The FY 20-21 Recommended Budget contains \$248,769,169 of reserves in all funds. General Fund reserves total \$174,127,779. Of this, \$167,158,260 is for one-time reserves, primarily the contingency reserve and \$6,969,519 is for ongoing reserves. Reserves in all other funds total \$74,641,390.

The following tables provide detail of the reserves grouped in the following categories for ease of reference.

- Table 1: General Fund Reserves in the FY 20-21 Recommended Budget
- Table 2: Reserves in Other Funds in the FY 20-21 Recommended Budget
- Table 3: General Fund One-time Reserves Being Liquidated in FY 19-20
- Table 4: General Fund One-time Reserves Being Rolled Over from FY 19-20 to FY 20-21
- Table 5: FY 20-21 Recommended Actions Eliminating Ongoing General Fund Reserves
- Table 6: FY 20-21 Recommended Actions Suspending Ongoing General Fund Reserves
- Table 7: New Reserves in the FY 20-21 Recommended Budget

Table 1: General Fund Reserves in the FY20-21 Recommended Budget

Reserve	Amount	Description
Contingency Reserve	\$164,658,260	Major one-time General Fund reserve as specified in Board Policy 4.3. See Attachment A.
Hospital Debt Service Reserve	\$5,000,000	Ongoing reserve to pay for debt service related to the New Adolescent Psychiatric Facility/ Behavioral Health Services Center.
Board Inventory Items Reserve	\$2,500,000	One-time reserve for Board inventory items, capped at \$500,000 per Supervisor for FY 20-21 on May 5, 2020.
Vietnamese-American Service Center Operations Reserve	\$1,000,000	Ongoing reserve for the anticipated net cost of operating the new Vietnamese-American Service Center in FY 20-21.
Reserve for Federal & State Impact	\$66,419	Ongoing reserve for federal or State actions that have a negative financial impact on the County.
County Facility Security Enhancements Reserve	\$903,100	Ongoing reserve to enhance security personnel and operations at County facilities.
Total	\$174,127,779	

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Table 2: Reserves in Other Funds in the FY20-21 Recommended Budget

Reserve	Amount	Description
Subsidized Medication Program Reserve	\$1,000,000	Ongoing reserve in VMC for a new program to subsidize the cost of insulin, epinephrine auto-injectors, and asthma inhalers for County residents.
IT End User Device Reserve	\$3,805,836	TSS ongoing reserve to purchase laptops, desktops and monitors per the County's equipment replacement schedule.
Jail Capital Projects Reserve	\$10,000,000	One-time Accumulated Capital Outlay Fund reserve for future jail capital projects.
Medical Office Building Capital Projects Reserve	\$20,500,000	One-time Accumulated Capital Outlay Fund reserve for future medical office building acquisition and capital improvements.
Library Reserve for Economic Uncertainties	\$17,000,000	Ongoing reserve to ensure fiscal sustainability due to heavy reliance on property tax revenue. Funds may be used to offset funding gaps to ensure a consistent level of service to Library District patrons.
Library Capital Development Reserve	\$6,678,000	Ongoing reserve to accommodate capital maintenance projects over \$25,000 and outside the scope of regular, annual maintenance projects included in the annual Library District budget.
Library Future Operations Reserve	\$1,230,000	Ongoing reserve established in the 3-year comprehensive plan allocates funding for the implementation of new technology to provide Library District patrons current technological services.
Total	\$74,641,390	

Table 3: General Fund One-time Reserves Being Liquidated in FY 19-20

Reserve	Amount	Description
Jail Consent Decree	\$8,250,000	Reserve to implement the consent decrees related to the matters of <i>Chavez v. County of Santa Clara</i> and <i>Cole v. County of Santa Clara</i> . Administration recommends reliance on the \$10,000,000 Jail Capital Projects Reserve to address these needs.
Community Hospital	\$7,713,078	Reserve for costs related to the transition and integration of O'Connor Hospital, Saint Louise Hospital and the De Paul Health Center.
Former RDA Assets Reserve	\$4,912,833	Reserve for property acquisition from former redevelopment agency assets using funds received

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Reserve	Amount	Description
		from the San José Redevelopment Property Tax Trust Fund in FY 15-16.
Building Capacity	\$2,402,504	Reserve for property acquisition, reconfiguration or other options related to housing increased County staffing.
County Facility Security Enhancements	\$2,200,000	Reserve to harden facility security to accommodate increased County staffing.
Tasers for SO	\$45,000	Reserve for electronic control device pilot program.
Total	\$25,523,415	

Table 4: General Fund One-time Reserves Being Rolled Over from FY 19-20 to FY 20-21

Reserve	Amount	Description
Supportive Housing	\$10,000,000	Reserve for supportive services in permanent supportive housing developments. This reserve relieves developers of having to create project-specific reserves for special services.
IT Projects	\$4,281,180	Reserve for certain IT projects that need more clarity of scope before being fully funded. These projects have been funded sufficiently to determine their scope so this reserve represents the remaining cost to complete the projects.
Childcare Reserve	\$3,000,000	Reserve to fund various components of the County's initiative to improve affordability and accessibility of childcare for County employees and residents.
Reserve for Federal & State Impact DCSS	\$1,384,288	Reserve for federal or State actions that have a negative financial impact on DCSS.
Reserve for Federal & State Impact	\$612,913	Reserve for federal or State actions that have a negative financial impact on the County.
Total	\$19,278,381	

Table 5: FY 20-21 Recommended Actions Eliminating Ongoing General Fund Reserves

Reserve	Amount	Description
Economic Uncertainties	\$4,980,429	Reserve to address local priorities that may arise during the fiscal year. These priorities result from unforeseen events or changes in the local economic environment that impact the County.
Implement Jail Consent Decrees	\$3,000,000	Reserve to implement the consent decrees related to the matters of <i>Chavez v. County of Santa Clara</i>

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Reserve	Amount	Description
		and <i>Cole v. County of Santa Clara</i> . Administration recommends reliance on existing resources to implement the requirements.
Increase Building Capacity	\$1,573,678	Reserve for lease costs or operating costs related to property acquired to house increased County staffing.
Jail Reform and Oversight	\$1,027,400	Reserve for jail reform and oversight now provided by the OIR Group.
Total	\$10,581,507	

Table 6: FY 20-21 Recommended Actions Suspending Ongoing General Fund Reserves

Reserve	Amount	Description
Payroll Cash	\$9,007,620	Reserve with a goal to equal the cost of one payroll. In April it was \$68.6M and a payroll was \$138M.
Reclassification	\$3,000,000	Reserve for possible future job reclassifications and salary realignments for the rest of FY 19-20 and in FY 20-21.
Retirement Benefit	\$2,800,000	Reserve for retirement benefit payments in excess of Internal Revenue Code Section 415(b) limits.
Total	\$14,807,620	

Table 7: New Reserves in the FY20-21 Recommended Budget

Reserve	Amount	Description
Board Inventory Items	\$2,500,000	One-time reserve for Board inventory items, capped at \$500,000 per Supervisor for FY20-21 on May 5, 2020.
Subsidized Medication Program	\$1,000,000	Ongoing reserve for a new program to subsidize the costs of insulin, epinephrine auto-injectors, and asthma inhalers for County residents.
Vietnamese-American Service Center Operations	\$1,000,000	Ongoing reserve for the net cost of operating the new Vietnamese-American Service Center.
Total	\$4,500,000	

cc: Chief Board Aides
Chief Operating Officer Miguel Marquez
County Counsel James Williams
Clerk of the Board Megan Doyle

Attachment A
CONTINGENCY RESERVE POLICY 4.3

The Board has established the goal of setting the Contingency Reserve at 5 percent of general fund revenues, net of pass-throughs, by July 1, 2007 (FY2008). In order to achieve this goal, the Board has established targets to set the contingency Reserve at 2.5 percent of general fund revenues in FY 2005, 3 percent in FY 2006 and 4 percent in FY 2007, all net of pass-throughs. By direction of the Finance and Governmental Operations Committee, the Administration has developed several policy guidelines that will guide the allocation of the Contingency Reserve in future years.

The Contingency Reserve will be used to support costs on a one-time basis for the following purposes:

- When the County is impacted by an unanticipated reduction in State and/or Federal grants and aid.
- When the County faces economic recession/depression and the County must take budget actions before the beginning of any one fiscal year.
- When the County is impacted by a natural disaster.
- When the County is presented with an unanticipated or unbudgeted lease expense that is necessary for the delivery of local services.
- When the County is affected by unforeseen events that require the allocation of funds.

The Contingency Reserve may be used to support ongoing costs, as a financing mechanism, when presented with critical program initiatives that have a time requirement that cannot be deferred. The program initiatives would become part of the next year's operating budget and be subject to review by the Board at that time.

In each case when a request for contingency reserve funding is made, the Department requesting the funds must provide an analysis demonstrating that funds do not exist within their current modified budget. The County Executive's Office of Budget and Analysis will review and verify that funding cannot be taken from existing appropriations. The County Executive's Office will also verify that the action requested cannot be deferred until the next budget cycle. These statements will appear in each transmittal presented to the Board requesting the allocation of contingency reserve funds along with statements of which allocation criteria are used and why.

The allocation of contingency reserve funding should occur at the mid-year budget review if possible.