

Board of Supervisors Response

“Managing Public Properties in Sonoma County” Grand Jury Report

FINDINGS

F2. Sonoma County Capital Assets Policy FA-1 fails to provide sufficient reporting for management to determine the extent to which normal maintenance and repairs of buildings and other County facilities are being deferred.

We disagree wholly with this finding. The purpose of Auditor-Controller-Treasurer Tax Collector (ACTTC) Fiscal Policy FA-1, Accounting for Capital Assets, is to ensure accurate and complete physical and financial records needed for financial reporting. The policy is not intended to address areas such as planning and budgeting for capital asset purchases and disposals, asset maintenance activities, or the appropriate use of County-owned assets. General Services and the County Administrator’s Office, through the capital project plan and budget development process, address maintenance and repairs needs.

F6. The true cost of maintaining the County’s facilities has been substantially understated for over a decade by deferring needed maintenance.

We disagree partially with this finding. Maintenance needs are annually identified and valued in the Five-Year Capital Improvement Plan (CIP).

F7. Facility maintenance is persistently underfunded, at levels substantially below recommended industry standards.

We agree with this finding. Competing public services and flat revenues stream have limited the Board’s ability to fully fund building maintenance needs. However, over the last 3 years the Board made a policy decision to increase infrastructure investment by annually dedicating forty percent (40%) of all new property tax growth, which is above the growth needed to keep up with inflation for existing levels of General Fund services, to the Capital Projects Budget to be used towards addressing deferred maintenance of County facilities. See Board adopted Long Range Planning policies <https://sonomacounty.ca.gov/CAO/Public-Reports/Budget-Reports/Financial-Policies-for-FY-2019-2020/>

F8. Deferred maintenance costs are continuing to accumulate to an extent that they constitute a major reduction in asset value not reported in the County’s financial statements.

We disagree wholly with this finding. The Sonoma County Comprehensive Annual Financial Report (CAFR) is prepared in accordance with GAAP applicable to state and local governmental entities. As such, the County is required to comply with Government Accounting Standards Board (GASB) Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. In order to record an impairment loss, GASB 42 requires that the impairment be significant, unexpected and permanent, and also result in a decline in service utility. Following the provisions of GASB 42, an outdated or decrepit office building that is still used as an office is not impaired, because there has been no decline in service utility.

RECOMMENDATIONS

R1: The ACTTC (Auditor-Controller-Treasurer-Tax Collector) establish a procedure by October 1, 2019, to supplement Capital Assets Policy FA-I with deferred maintenance reporting comparable to that in Federal Accounting Standards SFFAS 6, 40 & 42. [F2, F8]

Response: This recommendation will not be implemented because it is not warranted.

The tracking and reporting of planned, actual and deferred maintenance activities is not the responsibility of the ACTTC, and it is not appropriate to apply Federal Accounting Standards in the preparation of the County's Comprehensive Annual Financial Report (CAFR). As a local governmental entity, Sonoma County is required to prepare the CAFR in conformity with generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB). GASB does not require or recommend reporting of deferred maintenance by local governments and, therefore, does not provide a standard or guidance for such reporting.

The purpose of Fiscal Policy FA-1, Accounting for Capital Assets, is to present a uniform method of maintaining capital asset records and to apply a consistent method of accounting for capital assets. The focus of this policy is to ensure accurate, complete and timely physical and financial records needed for financial reporting in accordance with GAAP. The policy addresses asset impairment, which is required for GAAP reporting, although there is no specific mention of impairment due to deferred maintenance.

If the County is lacking a policy specifically related to the tracking and reporting of required and deferred maintenance of County-owned assets, that policy should be created by the department(s) with oversight and authority of that activity (County Administrator, General Services, Sonoma County Water Agency, etc.).

R4: The County Administrator and the Board of Supervisors budget regularly for facility maintenance at levels consistent with recommended industry standards by December 31, 2019. [F6, F7]

Response: The recommendation has been implemented.

In order to avoid significant increases in deferred maintenance costs for County facilities, the Board of Supervisors adopted a Facility Maintenance and Investment/Deferred Maintenance Funding policy during the Fiscal Year 2017-18 Budget Hearings. As the policy states, the Board of Supervisors will appropriate, for a 5 year period commencing with Fiscal Year 2017-2018, forty percent (40%) of all new property tax growth, which is above the growth needed to keep up with inflation for existing levels of general fund services, to the Capital Projects Budget to be used towards addressing deferred maintenance of County facilities. Following Board adoption of the policy, the County Administrator's Office established a process for General Services to request use of the Deferred Maintenance fund. Since the creation of this fund, a number of critical deferred maintenance projects have been mitigated.

In light of the current status of deferred maintenance on the County campus, the Board of Supervisors have directed staff to evaluate options to replace existing County buildings or relocating to a new location. Funding in support of this project has been appropriated from both the annual Capital Budget and in the Facility Maintenance fund over multiple fiscal years.