



Marin/Sonoma Mosquito and Vector Control District Financial Overview - January 2022

History

Following the District's formation as a California Special District in 1915, the District was funded by means of a small share of the general property tax revenues. In 1978, voters approved the landmark Proposition 13, which fundamentally altered local government finance by lowering the maximum property tax rate to 1% of assessed value and limiting annual tax increases to no more than 2%. Prior to the passage of Proposition 13, property taxes rates in California averaged slightly less than 3%.

The effect on the District was to abruptly slash its income in half, causing staff layoffs and service reductions. A series of legislative actions by the state to regulate the allocation of property tax funding followed. More than 20 years later, funding of Special Districts and other local government entities was further modified by the voters' approval of Proposition 218, which placed limits on local government's ability to impose or increase special assessments without voter approval.

Ad Valorem Taxes

The District's share of the property tax revenues represents a tiny fraction of one percent of the overall property taxes paid by property owners. The formula was established to be equivalent to the share that the District received prior to the passage of Prop 218. In 2021, the ad valorem (according to value) tax income accounted for approximately 58% of the District's income, with almost all the remainder provided by the two Benefit Assessment Districts described below. For more detailed information on property taxes, the reader may wish to consult the document "Understanding California's Property Taxes," published free of charge by the nonpartisan Legislative Analyst's Office, and available on the web.

Assessment District #1

After enduring some lean financial years, the Board formed Assessment District #1 in October 1996, with the first revenues accruing to the District in 1997. State law required only a protest hearing to create the Assessment District; no mail or other ballot was required. Assessments in District #1 are levied in the central areas of Marin and Sonoma counties. Since this assessment

predated the voters' 1996 approval of Proposition 218, it is considered to be "grandfathered" and is subject to some of the limitations subsequently established by Proposition 218. Initially, the Board of Trustees approved an annual increase to the maximum authorized tax rate equal to the change in the Consumer Price Index (CPI) for the San Francisco Bay Area, not to exceed 5% per year. However, the assessments were limited to a never-to-be-exceeded maximum assessment rate (cap) of \$12.00 per single family equivalent benefit unit and this capped was reached in fiscal year 2013-14. As a result, the income from Assessment District #1 is flat; it is not subject to the CPI each year and the cap cannot legally be increased. One consequence is that this flat revenue declines in purchasing power each year due to the eroding effect of inflation. In fiscal year 2021-22, revenues from Assessment District #1 are anticipated to be approximately \$3,176,148, representing 75% of the total benefit assessment revenue from the two benefit assessment districts.

Each year, in accordance with Health & Safety Code Section 2082 and Article XIII D of the California Constitution, the District's Assessment Engineers calculate the amount of special benefit accruing to each parcel receiving services within the District.

Assessment District #2

Assessment District #2 was established in late 2004, long after Proposition 218 took effect in 1996. Before establishing the Assessment District, the District conducted community outreach and surveying to ensure property owners supported the proposed new services and assessments. Following LAFCO (Local Agency Formation Commission) required procedures, the District conducted a mail election. This new benefit assessment enabled the District to provide mosquito, vector and disease control to the coastal areas of Marin County and the coastal and northern areas Sonoma County, which had not previously been served by the District or any agency. Around this time, West Nile virus arrived in the area and this development may have played a role in the approval by the voters, which stood at 61.22 % of the weighted returned ballots. Although it accounts for only 25% of the revenue (\$1,046,073) from benefit assessments in fiscal year 2021-22, this assessment is not capped and can adjust over time to reflect increases in costs to provide services. To recognize varying levels of services rendered by the District, there are two zones (A and B) of differential benefit within this Assessment District #2. For example, during fiscal year 2021-22, the maximum authorized rates were \$28.82 for Zone A and \$27.56 for Zone B. The per parcel amount levied in Assessment District #2 is higher than for properties in Assessment District #1 because properties in Assessment #2 do not contribute ad valorem taxes to the District.

Contract Revenues

The District performs mosquito control work for municipalities and their facilities, such as the Petaluma wastewater treatment plant and water recycling facility. The District also provides ongoing mosquito control services to the City of Santa Rosa's wastewater irrigation and reclamation programs. Because the scope and nature of these undertakings clearly exceeds the amount received in municipal assessments by the District, the District enters into contract agreements to recover at least some of the costs it incurs. Although the total amount varies from year to year, revenues have averaged \$150,000 annually over the last decade, representing less than 2% of the District's total revenue.

Expenses

The District provides a public service requiring many employees with a variety of skills and experience. As a result, the District's primary expense are salaries and benefits. For the 2021-22 fiscal year, the District will spend 65% of the total budget on salaries and benefits. Employee salaries and benefits are established by District policies and approved labor contracts.

In addition to salaries and benefits, the District incurs costs to purchase and maintain vehicles, spray equipment, and lab equipment. Similarly, the District purchases chemicals, tools and supplies needed for vector testing and control and contracts for needed professional services not provided by District staff. The District Board of Trustees adopts a budget each year that details these expenditures.

Annual Budget Process

Each year the Board's Budget Committee holds an initial meeting with staff to review an administrative draft of the proposed budget for the coming fiscal year, which begins on July 1 and ends on June 30 each year. The committee reviews income forecasts and proposed expenditures, noting operational and staffing plans as well as any changes in laws and regulations. Following this series of meetings, staff prepares a budget that meets with the Committee's approval, and this document is considered by the Board in open, public session. To give context to the budget, staff prepares an accompanying "Budget Narrative" document that cites many statistics and performance measures. As the need arises, the Board may adopt one or more Budget Amendments during the fiscal year.

Each quarter, Board members are provided with a financial statement that illustrates the progress of income and expenditure as the budget year progresses. Staff also tracks revenues, expenditures and conformance with the budget by means of a similar monthly statement.

Capital Assets

The District requires a wide variety of vehicles, equipment, tools and facilities to perform vector control and administrative functions. Currently, the District maintains capital assets valued at \$10.4 million. In 2020, the District conducted a replacement study and developed a plan for replacing the assets when needed. The District has a capital asset reserve of approximately \$1.1 million and contributes funds from tax and assessment revenues every year to ensure the replacement plan is fully funded. The reserve funds buffer fluctuating annual capital expenditures and help replace equipment as it wears out.

Long-Term Liabilities

The District provides retirement benefits through the Marin County Employees' Retirement Association. As of June 30, 2021, the District has an unfunded actuarial liability of \$7.7 million. Additionally, the District provides post-employment medical benefits (OPEB) to certain employees. As of June 30, 2021, the District has an OPEB liability of \$7.8 million. However, the District has set aside sufficient cash and investments to fully fund this OPEB obligation. The District does not have any other long term liabilities.

Financial Reserves

To prudently guard against the possibility of revenue collected by the counties being delayed, the District maintains a reserve in its General Fund sufficient to cover six months of operations. This amount keeps the District solvent during the periods in which no income is received because tax and benefit assessment income is remitted to the District only twice per year.

Pursuant to the Board's reserve policy, the District also maintains a reserve equal to twenty percent (20%) of annual budget to ensure readiness in the event of the possibility of a public health emergency such as an outbreak of vector-borne disease. While this amount of reserve funding may seem high to some observers, other California vector control districts have found that efforts to control infestations of invasive mosquito species require a significant investment of financial and personnel resources to control or eradicate the disease-carrying vector.

Banking

The District's bank accounts are administered by the County of Marin Treasury and kept at Bank of America. The District's financial controls include a "positive pay" system to ensure that only valid and authorized checks are cashed by payees. The District also maintains a separate bank account to make tax payments and pay employees through direct deposit. This account is

currently at Exchange Bank of Sonoma County. A payroll services company prepares the payroll, tax payments and direct deposits to employees from information compiled by District staff. Additionally, District staff members make deposits, issue checks for accounts payable and manage accounts receivable. A Trustee reviews and approves all payroll documents before issuance and also signs all checks issued by the District.

Investments

The District invests its funds in the Marin County investment pool. The primary objectives of the investment pool are to preserve capital, meet liquidity needs and achieve an investment return consistent with the pool's investment policy. The fund invests almost exclusively in federally issued securities backed by the United States government. Although cash balances vary, the District currently has approximately \$15 million invested in the Marin County investment pool.

Financial Audits

An independent firm of auditors examines the District's accounting records each year. The auditor, working closely with the District's Audit Committee, presents the findings each year, typically at the November meeting. The resulting two main documents: "Basic Financial Statements" and the "Management Report/Auditor's Communication Letter" are reviewed by the Board and published on the District's web site in the financial section.

The California Government Code provides that local governments must change independent auditing firms, or the engagement partner with a single firm, no less than every six years. For the 2020-21 fiscal year, Maze and Associates of Pleasant Hill served as the District's financial auditors and will return for the 2021-22 year.

Risk Management

The District is a member of the Vector Control Joint Powers Agency (VCJPA). VCJPA provides a wide variety of self-insured and insurance services to the District, including general liability, workers' compensation and property loss coverage. VCJPA has hired claims administrators who manage claims against the District and advise the District on safety and risk management policies and programs. The District maintains reserve funds held by VCJPA to help cover extraordinary losses and reduce the District's self-insured retention.