

During Fiscal Year 2017-18 Budget Hearings the Board approved a deferred maintenance policy as part of the County's Financial Policies <https://sonomacounty.ca.gov/administrative-support-and-fiscal-services/county-administrators-office/budget-and-operations/financial-policies-for-2022-2023>, that called for 40% of growth in property tax, above what is needed to balance the budget, to be dedicated to a County Center Modernization Fund (originally titled Deferred Maintenance Fund) on an ongoing basis.

To date, this policy has generated total capacity of \$18.1 million annually in dedicated General Fund. In addition, during the FY 2022-23 budget hearings, your Board set aside \$1 million in Transient Occupancy Tax toward the deferred maintenance fund, bringing the total annual capacity to \$19.1 million. During the March 2022 Board meeting discussing County Center, a plan to utilize \$1 million of this annual capacity for neighborhood service centers was discussed, and one-third of this was set aside for the financing of the purchase of the Bank of America site in Guerneville. Staff anticipate that the \$1 million will still be utilized for neighborhood services, leaving \$18.1 million available for financing of construction. Based on the preliminary numbers received from the Assessor's office for FY 2024-25 growth, the capacity of the fund is expected to increase to approximately \$20 million. While there may be growth in future years, it is not possible to predict what this level of growth will be in advance.

In addition to the annual allocation, the County Center Modernization fund has received additional one-time allocations, including funding from the sale of the Chanate property, \$14.1 million; as well as allocations of year-end fund balance in FY 2020-21 and FY 2022-23 totaling \$7.3 million; and \$11.3 million that was initially programmed for the purchase of the downtown Sears site. A total of \$20.5 million from the accumulated funds has been utilized for critical time sensitive projects and for costs associated with the County Center project planning and development costs to date. The fund ended FY 2023-24 with \$71.3 million in fund balance. Based on the FY 2024-25 Adopted Budget, this is anticipated to grow to \$86.0 million by the end of FY 2024-25.

Unlike general obligation bonds, certificates of participation do not require voter approval as they not backed by dedicated ad valorem property tax and instead are secured with a pledge of real property, which can include the project that is being financed. The County engaged KNN Public Finance, the County's Independent Registered Municipal Advisor, to develop estimates of the amount that could be financed by available resources. KNN developed conservative assumptions, looking at current market rates of approximately 4%, plus 100 basis points to account for potential increases in interest rates. Under these conditions, the County could incur approximately \$314.7 million in total debt supported by \$20 million in annual payments over 30 years. As reference, for each \$1 million in increased annual debt payment capacity approximately \$15.8 million in additional debt proceeds can be generated. Actual rates will vary based on market conditions at the time of sale. Currently, most forecasts call for a decrease in borrowing rates, however given both the significant uncertainty around future interest rates and future costs, it is prudent to plan for a conservative scenario. With the borrowing capacity and the current fund balance, a total

project cost of approximately \$386 million could be supported. Supplemental sources of funds may result from released leased space and/or sale of land, and public-private-partnerships. Potential construction scenarios and their costs are discussed below.