

SONOMA COUNTY OPEN SPACE FISCAL OVERSIGHT COMMISSION

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April 7, 2016

Board of Directors
Sonoma County Agricultural Preservation and Open Space District
575 Administration Drive
Santa Rosa, CA 95403

Re: 2015 Annual Report

Dear Board Members:

This letter constitutes the Commission's Fifth Annual Report as required by Board of Supervisors' Resolution No. 10-0832 dated December 7, 2010. The report covers the period from February 5, 2015 to February 29, 2016.

Background

Following the voters approval of Measure F in 2006, the Board of Supervisors reorganized the Sonoma County Open Space Authority into the current Commission effective April 1, 2011. As part of that reorganization, the Commission is required to perform certain fiscal oversight duties with respect to the use of funds held in the County's Open Space Special Tax Account and to review and comment on the District's annual audit all as set forth in Resolution No. 10-0832.

What follows is the Commission's Fifth Annual Report to the District's Board of Directors on the Commission's progress in performing its assigned tasks.

Commission's Fifth Annual Report

The highlight of the Commission's 2015 effort was to realize \$13.6 million in savings to the District by refunding Measure F Sales Tax Revenue Bonds issued in November of 2007. The Commission's recommendation, accepted by the County's Treasurer, involved both the refinancing of the District's debt at a lower interest rate plus the utilization of District's reserve funds to pay down its bonds. The result is the District's full outstanding debt will be retired six years ahead of schedule. The Commission's effort on the bond refunding is detailed in section 5 of this report

1. Transfer of Funds from the Open Space Special Tax Account to the County's General Fund. To date,

the Commission has no information of any such transfer of funds other than for the reasonable value of goods and services provided by the County to the District. In that regard, County departments that provide services to the District under contract or state-approved cost plan are doing so pursuant to the contracts or the plan, which require informative billing with respect to both direct and indirect costs. For this reporting period, the Commission focused on the legal services provided to the District by the Sonoma County Counsel's Office. The Commission recommended that District staff ensure the following tasks are accomplished: (1) that the two parties move quickly towards the execution of a written agreement outlining the scope of legal services to be provided to the District, (2) that a memo be written by County Counsel to the District demonstrating the procedures in place to prevent a conflict of interest by County Counsel regarding the District's business and the County's business, (3) and that County Counsel work with the County Administrator's Office to enhance the conduct of board meetings, so the public can more easily determine when the Board is acting as the District's Board and when the Board is acting as the County's Board or another entity's Board during meetings and within the corresponding meeting minutes.

2. *Operations and Maintenance Expenditures.* The Commission is required to review District operations and maintenance expenditures for compliance with the 2006 Expenditure Plan and the District's implementing policies. The Commission has proceeded with this task on a case-by-case basis with reviews of the District's matching grant program and reviews of fee lands transfers as well as conducting an overview of the fiscal year 2014-2015 accounting transactions for recreational lands. That transaction overview was conducted by a committee of the Commission and an independent auditing firm, Maze & Associates, which reviewed a sample of expenses coded to the operations and maintenance category, and six executed agreements between the District and the park operations entities receiving the transferred land. The results of that review were summarized in an October 29, 2015 memo from the Commission to the District. The memo commends District staff on their coding of expenditures appropriately to the operations and maintenance category in compliance with Measure F, and also provides recommendations to strengthen office protocols related to the expenditure category, including direction to conduct an in-service training for District staff on the criteria for coding their time cards and other expenses to the category. The Commission was informed that this staff training occurred and that the District has office protocols in place for regular updates and further trainings on this expenditure category. Additionally, the Commission participated in a review of the District's Initial Public Access, Operations and Maintenance Policy, which was adopted by the District's Board on February 2, 2016.

3. *Procurement Practices.* During the Commission's third review period (the Commission's February 6, 2014 Annual Report), the Commission completed a review of the District's procurement practices for the purchase of goods and services from private vendors and determined that the District was meeting reasonable procurement standards. The District's practice is to follow the County's procurement practices. The Commission has determined that the District is continuing to utilize the County's procurement practices and the General Manager is satisfied that the practice meets the District's needs.

4. *Respond to Requests of the Board of Directors for Advice.* During this report period, there no requests for advice from the District Board. The Commission has received and dealt with the following matters as requested by the District's General Manager:

- A. January 6, 2015: Review of the progress on the District's dynamic calculation model for the District's stewardship needs at 2031 and beyond. The review occurred with District staff and with staff from the Center for Natural Lands Management, the consultant assisting the District

with developing the model. The consultant will present the next update on the model at a future Commission meeting. There is more detail on the Commission's effort on this task detailed in item M below and in section 9 of this report.

- B. January 15, 2015: Review of Colgan Creek Restoration Phase 3, a Matching Grant Project. City of Santa Rosa staff addressed Commission questions regarding location of project, boundary lines, and costs. This project was reviewed by the Commission's Matching Grant Program committee in early 2014 (during the application review).
- C. February 5, 2015: Review of the District's draft Initial Public Access, Operations and Maintenance Policy. The Commission provided recommendations to District staff. The outcome of the Commission's effort on this task is detailed in section 2 of this report.
- D. March 5, 2015: Review of the District's draft Initial Public Access, Operations and Maintenance Policy. The Commission provided recommendations to District staff. The outcome of the Commission's effort on this task is detailed in section 2 of this report.
- E. March 27, 2015: Review of a possible re-funding of the Measure F Sales Tax Revenue Bonds that were issued in November of 2007. This review occurred with District staff and with County Treasury staff along with the consultant, KNN Public Finance. The outcome of the Commission's effort is detailed in section 5 of this report.
- F. April 9, 2015: Review of the District's draft Initial Public Access, Operations and Maintenance Policy. The Commission provided recommendations to District staff. The outcome of the Commission's effort on this task is detailed in section 2 of this report.
- G. May 7, 2015: Review of the District's and County Treasury staff options for the potential re-funding of the Measure F Sales Tax Revenue Bonds that were issued in November of 2007; a presentation was provided by KNN Public Finance, the consultant on bond issuance. The outcome of the Commission's effort on this task is detailed in section 5 of this report.
- H. May 7, 2015: Review of the District's FY 15/16 and FY 16/17 budget.
- I. May 14, 2015: Second review of the options related to the potential re-funding of the Measure F Sales Tax Revenue Bonds that were issued in November of 2007; a presentation was provided by KNN Public Finance, the consultant on bond issuance. The outcome of the Commission's effort on this task resulted in the Commission's Minute Order #13 and is detailed in section 5 of this report.
- J. September 10, 2015: Review of the District's draft Initial Public Access, Operations and Maintenance Policy. The Commission provided recommendations to District staff; including that the draft policy be comprehensive and include prior board-adopted policies on the subject. The outcome of the Commission's effort on this task is detailed in section 2 of this report.
- K. October 29, 2015: Review of the District's draft Initial Public Access, Operations and Maintenance Policy. The Commission provided recommendations to District staff. The outcome of the Commission's effort on this task is detailed in section 2 of this report.
- L. November 12, 2015: Review of the District's draft Initial Public Access, Operations and Maintenance Policy. The Commission requested several updates to the draft and recommended that the updated version be presented to the District's Board. The outcome of the Commission's effort on this task is detailed in section 2 of this report.
- M. December 3, 2015: Review of the progress on the District's dynamic calculation model for the District's stewardship needs at 2031 and beyond. The review occurred with District staff and with staff from the Center for Natural Lands Management, the consultant assisting the District with developing the model. The Commission provided several recommendations on the model to District staff. There is more detail on the Commission's effort on this task in section 9 of this report.

- N. January 6, 2016: Review of the District's plan for the 2016 Matching Grant Program.
- O. January 6, 2016: Review of the District's financial reports.

For more details of the Commission's effort on the above matters, please refer to the Commission's meeting agendas and minutes. A link is provided at the end of this report.

5. *Preview District Borrowing Transactions.* The Commission reviewed and recommended a refunding of the Measure F Sales Tax Revenue Bonds that were issued in November of 2007; the bonds were originally issued to finance the acquisition of parkland and other real property. The 2015 refunding was managed by the County Treasurer, who presented several refunding scenarios to the Commission. The Commission recommended a refunding scenario that included a \$30 million cash contribution from the District's Stewardship Reserve Fund to reduce the outstanding debt and an accelerated repayment schedule. The outcome of that July 2015 refunding will yield a \$13.6 million savings to the District from the original payment structure. That savings is the result of (1) the District's cash contribution towards the debt, (2) the accelerated repayment structure, which will have the debt paid off in FY 2024-2025 instead of FY 2030-2031, and (3) due to favorable market conditions, the interest rate decreased from 4.76% to 1.68%. The Commission further recommended via their Minute Order #13 that replenishment of the Stewardship Reserve Fund is to begin in FY 2024-25, at \$7.5 million annually for seven years, and that structured payment action should in no way curtail any additional contribution necessary to fully fund the Stewardship Reserve to the amount determined to be necessary at the end of Measure F in 2031.

6. *District's Annual Audit.* The Commission's Audit Report Review Committee reviewed the District's FY 14/15 Audit Report as prepared by Maze & Associates. The Committee provided direction to District staff to contact Maze & Associates to (1) correct the labeling within the report by specifying the Measure F sales tax revenue and the OSSTA Fund (Open Space Special Tax Account); Maze had use the label of "County" for these items, (2) clarify the wording regarding the District's available funds in the Operations and Maintenance Fund to be up to 10% of the Measure F sales tax revenue earned less the amount used for eligible expenses during the Measure F term, (3) add to the multiple year sales tax revenue graph a note that California began collecting internet commerce use tax on September 15, 2012 as that policy had significant impact on the Measure F sales tax revenue (AB153 or the "Amazon Tax"), and (4) enhance the Schedule of Interest in Land, which is located in the Other Supplementary Information section of the report, by adding an identifier to each land interest to note whether the interest is a Conservation Easement, an Open Space Easement, or a Fee interest and to note whether an interest includes a corresponding endowment.

7. *Annual Financial Report.* The County Auditor has identified the District as a "component unit" of the County in the 2012-2013 Comprehensive Annual Financial Report (commonly referred to as the "CAFR"). There is a difference of opinion between the Commission and the Auditor on this issue and that difference is explained in the Commission's second annual report to the District's Board dated April 23, 2013.

8. *Appraisal Review.* During the term of this report the Commission has reviewed the following District real property appraisals for compliance with the District's Appraisal Standards and, when appropriate, has reported its comments to the District's General Manager for consideration by the Board of Directors:

- A. March 5, 2015: Foppiano Vineyards Conservation Easement, Healdsburg
- B. July 9, 2015: Rancho Mark West, Santa Rosa
- C. August 20, 2015: Richardson-Kashia, Jenner
- D. November 12, 2015: Estero Ranch, Bodega
- E. November 12, 2015: Sebastopol Skategarden Expansion (Matching Grant Program)
- F. February 4, 2016: Hansen Ranch, Petaluma

9. *District's Administration of the Stewardship Fund.* During this report term, the Commission's Stewardship Committee met with the District's Stewardship Manager, Finance Manager, and their consultant, the Center for Natural Lands Management, to review the District's plan to develop and implement a financial forecasting model for the District's stewardship needs at 2031 and beyond. That forecasting model was presented to the full Commission in a report titled, District's Stewardship Reserve Requirement Review. There are three tasks that were quantified for this model: (1) annual monitoring, (2) enforcement, and (3) potential legal defense. The model is designed to be managed by District staff, so when a property acquisition occurs, its corresponding annual monitoring expense can be added to the forecast and the needed fund reserve adjusted. The Commission recommended that District staff continue to explore the model's application and the resulting needed reserve goal and present those updates to the Commission in 2016.

Additionally, the Commission's Investment Committee met with the County's Treasury staff to explore investment options for the District's Stewardship Fund and for other District funds as allowed by the District's investment policies. At this time, the Commission is not recommending a change in investment strategy and will continue to explore options in 2016. The District's funds are included within the County Treasury's investment pool and the Treasury's management fees are at market rate.

10. *Compliance with Measure F.* To date, no information has come to the attention of the Commission showing non-compliance with Measure F.

11. *Review of the Auditor's Annual Report on the Activities of the District (Government Code §50075.3).* As of the date of this report, the Sonoma County Auditor has prepared the report for two annual periods: the period ending June 30, 2014 and period ending June 30, 2015. The Commission's Annual Report/Audit Report Review Committee has reviewed both reports and is satisfied that both reports summarize the Measure F annual sales tax revenue and allowable expenditures, and pending project status. The Commission recommends that the District add this report to its website in the Budget and Financial section.

This report was approved by the Commission at its meeting held on April 7, 2016.

Respectfully submitted,



Bob Anderson
Sonoma County Open Space Fiscal Oversight Commission Chair

cc: Mr. Bill Keene, Sonoma County Agricultural Preservation and Open Space District General

Manager

Mr. David Sundstrom, Sonoma County Auditor-Controller Treasurer-Tax Collector

Mr. Bruce Goldstein, Sonoma County Counsel

Ms. Veronica Ferguson, Sonoma County Administrator

Links:

Measure F as approved by voters in November 2006

<http://smartvoter.org/2006/11/07/ca/sn/meas/F/>

Board of Supervisors' Meeting Minutes from December 7, 2010

Resolutions 10-0832, 10-0833, 10-0834

[file:///C:/Users/C/Downloads/20101207 minutes.pdf](file:///C:/Users/C/Downloads/20101207%20minutes.pdf)

http://sonoma-county.granicus.com/MetaViewer.php?view_id=2&clip_id=130&meta_id=41975

Sonoma County Open Space District Fiscal Oversight Commission's Role, Rules of Governance, Meeting Agendas & Minutes

<http://www.sonomaopenspace.org/who-we-are/board-and-advisors/fiscal-oversight-commission/>

Official Statement County of Sonoma Measure F Sales Tax Revenue Bonds issued November 2007

<http://emma.msrb.org/MS61446-MS262167-MD505658.pdf>

County of Sonoma Agenda Item Summary Report on the 2007 Measure F Sales Tax Revenue Bonds Refunding

http://sonoma-county.granicus.com/MetaViewer.php?view_id=2&clip_id=505&meta_id=162825

County of Sonoma Measure F Sales Tax Revenue Refunding Bonds Series 2015 A (Limited Tax Bonds – Agricultural Preservation and Open Space)

<http://emma.msrb.org/EA725772-EA569231-EA965212.pdf>

Sonoma County Agricultural Preservation and Open Space District's Board of Directors'

February 2, 2016 Meeting Agenda Item #27 Initial Public Access, Operations and Maintenance Policy @ 1:17 minute marker on meeting video

http://sonoma-county.granicus.com/MediaPlayer.php?view_id=2&clip_id=581