

# Mendocino County Financial Roadmap Recommendations

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June 2026

# About the Project

**The County Financial Management Roadmap Project's goal** is to develop clear, actionable steps to improve the County's financial management while addressing problems highlighted in recent external audits and reviews.

## Focus Areas:

1. Financial Operations & Systems
2. Property Tax Collections
3. Reserve & Core Financial Policies
4. Financial Forecasting & Reporting



- Identify Key Challenges
- Recommended Actionable Next Steps
- Establish Clear Timelines & Milestones

# Financial Operations & Systems

**The County's core financial operations are significantly substandard**, driven in large part by the incomplete implementation of the Tyler Munis financial system that is used to conduct the majority of the County's financial work.

These deficiencies have been documented in prior external reviews, including a detailed assessment performed by Regional Government Services (RGS) in 2025. These problems are primarily driven by long-ago implementation decisions that drives underutilization of the financial system.

This requires extensive staff time to navigate regular processes (ex: journal entries, budget preparation, financial tracking) and leaves gaps in the controls of County financial activities (ex: bank account reconciliation).

# New Procedures & A Supporting System Needed

Given the current configuration of the financial system, the long period since its last upgrade, and the institutionalization of inefficient and overly-manual financial procedures, the process of redesigning procedures and the system will be a significant effort: **A reimplementation project is required, rather than a set of modest upgrades and improvements.**

**The project approach recommended here will likely require:**

- **Time:** Estimated three years to complete.
- **Resources:** A multi-year project budget with a \$3-\$5 million total budget.
- **Staffing:** Additional 3-5 staff plus specialized technical and process redesign consultants.
- **Effective Governance:** A multi-department steering committee to oversee the project.

# Process & System Redesign Project - Year 1

**Goal:** Document current and improved operational processes and remap the chart of account.

This is a standard processes prior to major financial system (re)implementation projects.

**Resource Needs:** Hire an in-house project manager and 2-4 other project staff. Secure process design and technical consulting support. Likely year 1 project budget of \$0.7M-\$1.0M.

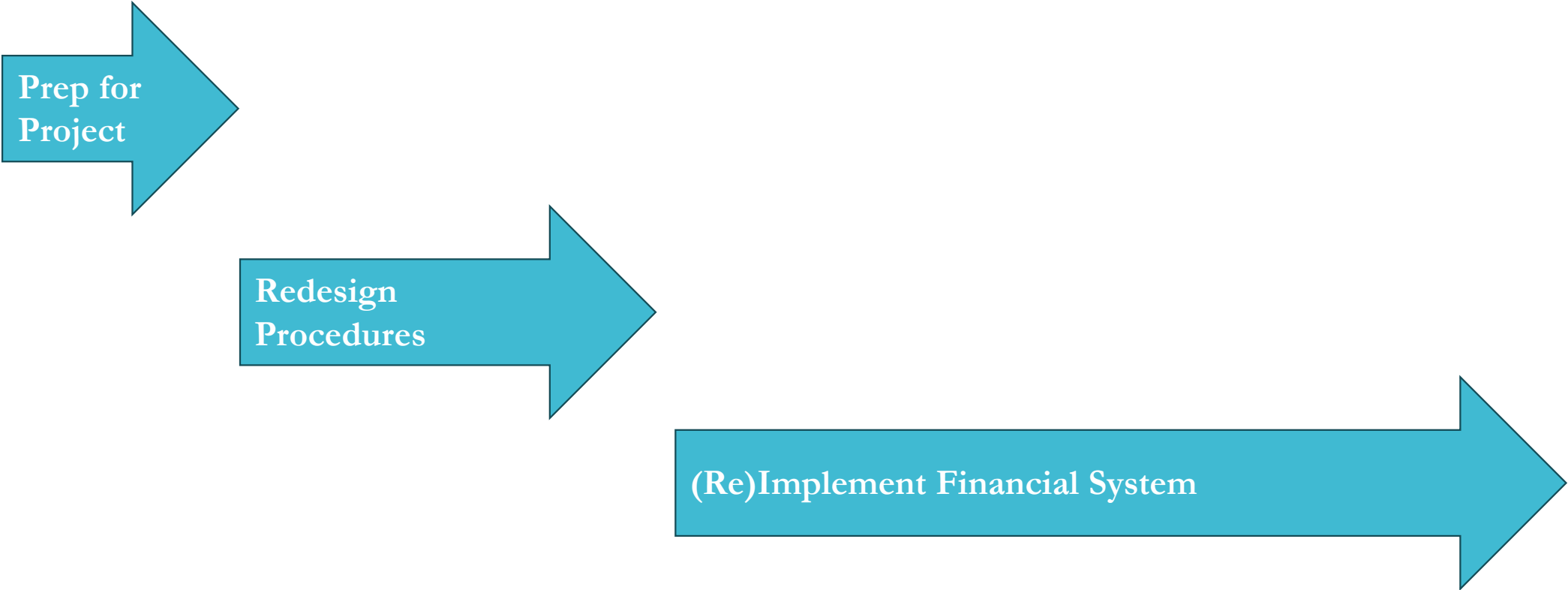
**Project Governance:** Establish multi-department steering committee to guide project decision-making and cadence for reporting on status to the Board (likely semi-annually or quarterly).

# Key Decisions in the First Year of the Project

## Major questions to resolve in the first year of the project:

- Reimplement Munis or consider a new financial system?
- Are any new subsystems required for specialized work (budget, time-entry, others)?
- Which inventoried processes to include in the system reimplementation project and which to defer for a future project?
- How to phase specific modules and processes in the project?
- Freeze development in legacy system for now, limiting interim improvements for critical items?

# High-Level Process/System Redesign Schedule



2026

2027

2028

2029

# Property Tax Revenue Collection

An audit performed by the California State Auditor in 2025 highlighted urgent improvements needed in the collection of property taxes, the County's largest single general fund revenue source.

The County has made recent progress on a key audit recommendation, developing preliminary management reporting to better plan for and manage that work.

But the work ahead is now clearer: **A backlog of over 5,000 property ownership or improvement events needs to be eliminated**, while continuing to perform a host of other statutory requirements.

# The Property Assessment Backlog

## Change in Ownership Events

<u>Year</u>	<u>Count</u>	
2013	1	} 307 prior to reassessment statue of limitations
2015	2	
2016	1	
2017	6	
2018	30	
2019	19	
2020	99	
2021	149	
2022	211	
2023	279	
2024	469	
2025	1,242	
<b>Total</b>	<b>2,508</b>	

## Pending New Construction Events

<u>Year</u>	<u>Count</u>		
2008	1	} 954 prior to reassessment statue of limitations	
2011	1		
2016	6		
2017	10		
2018	17		
2019	16		
2020	71		
2021	832		
2022	746		
2023	543		
2024	434		
2025	179		
<b>Total</b>	<b>2,856</b>		

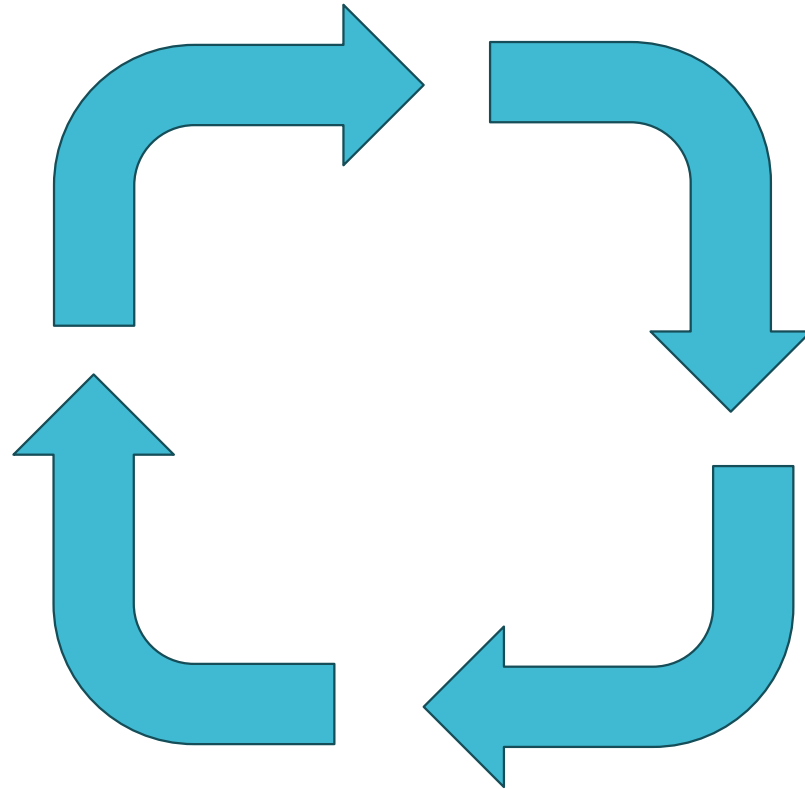
# The Impact of the Backlog

Clearing this prior year backlog of over 5,000 ownership and construction events is critical to the County's financial performance. Until that is completed, impacts will include:

1. **Reduced revenue available for local services**, given lower overall assessed property values and foregone tax revenues given legal limits on prior year collections. These financial impacts are felt by the County, Mendocino's incorporated cities, school districts, and other special districts.
2. **Heightened workload** for staff in the three primary involved offices, given the inefficiency that results from processing prior year events outside of the annual assessment and collection process.
3. **Financial hardship and uncertainty for property owners** that face retroactive tax bills and delayed tax refunds.

# Need to Break a Negative Workload Cycle

High-level of turn-over means loss of institutional knowledge and need for constant new staff training.



System and process limitations require use of short-cuts but drives future rework.

Need for short-term action crowds out longer-term planning.

Short-term backlog focus pulls resources from long-term fixes.

# The Key Steps to Catching Up

1. **Stabilize staffing levels** to build knowledge and capacity to address the office's day-to-day work, address the backlog, and implement needed long-term changes.
2. **Develop a clear and measurable workplan** to eliminate the backlog, including clear quarterly milestone goals available to the CEO, Board, and public.\*
3. **In parallel, dedicate staff resources to complete longer-term improvements** that, while time-intensive, will improve efficiency in the longer-term.\*

*\* Will require additional time-limited staffing and resources*

# Stabilizing Staffing Levels

The Assessor's Office has experienced an extremely high level of turn-over in recent years: **From 2022 to 2026, annual staff turn-over rate of 25% of the office.**

## **Assessor's Office** **Staffing Changes 2022 to 2026**

	<b>Period Total</b>	<b>Annual Average</b>
Hires	23	4.6
Departures	(24)	(4.8)
<b>Net Change</b>	<b>(1)</b>	<b>(0.2)</b>

} Annual staffing turnover equal to 25% of current staffing levels

# Stabilizing Staffing Levels

Office management does not have readily available information to determine the cause of this level of turn-over, but indicates that it is likely a mix of workload pressure, challenges with the new property tax system, potential lack of competitive compensation, a lack of dedicated staff focused on training and development of new employees, and other challenges.

**Recommendation: The CEO and Human Resources Director should work with the Assessor to explore underlying causes of turn-over in the office and work to address them.** This likely will likely require use of standard practices and tools, including reviews results from exit surveys, benchmarking staff compensation, revising hiring and onboarding procedures, and other interventions.

# Develop A Plan to Eliminate the Backlog

**Clearing the backlog in two years will require roughly doubling current through-put for these activities.** In 2020, the Assessor's Office processed approximately **2,500** changes in ownership and new construction assessments. The backlog currently includes over **5,000** such events for prior years alone, with new events entering the queue each day.

**Eliminating the backlog will be a major effort and will** take management focus, time, and resources - Likely requiring 18-24 months, stabilized staffing levels, and additional interim staff and resources until it is cleared. These workload impacts and staffing needs apply to the Assessor, Auditor-Controller, and Treasurer-Tax Collector functions.

# Develop A Plan to Eliminate the Backlog

**Recommendation:** The Assessor's Office should develop a detailed, work-load driven plan to reduce and ultimately eliminate the backlog.

**The plan should include:**

- Quarterly quantified goals for discrete portions of the backlog,
- Consideration of “black out periods” and downstream heightened work requirements that will be experienced in the Auditor-Controller and Treasurer-Tax Collector functions, who should participate in the development of the plan,
- Quarterly reporting to the Board and public on progress against the established plan.

# Parallel Projects to Improve Long-Term Efficiency

While addressing the backlog of assessment events should be the priority, the Assessor's Office needs to focus dedicated resources on other projects aimed at improving long-term efficiency:

- 1. Comprehensive clean-up of incomplete or incorrect data in the property tax system.**
- 2. Complete build-out of “characteristics” in the new property tax system required to automate certain processing steps.**
- 3. Implement other process improvements needed to improve operating efficiency.**

# Parallel Projects to Improve Long-Term Efficiency

**Recommendation: Dedicate staff to focus exclusively on these long-term efficiency improvements.**

Understandably, available staff time is focused on processing day-to-day transactions and make progress on the backlog of prior year work. Data clean-up and these process improvements is typically only performed during the course of completing an assessment for a particular property.

The Assessor's Office should request 1-2 additional limited term staff focused on these long-term process improvement projects together with project plans and timelines to complete them.

# Financial Forecasting & Reporting

Charting a financial path forward requires any county government to **accurately forecast** revenues and expenditures, **create budgets** to address identified trends and issues, and **provide regular updates on changes** as they occur to **allow the Board and CEO to adjust course** as conditions change.

In response to issues raised in external reviews and expressed by Board members and other stakeholders regarding the County's forecasting and reporting practices, this review included a review of budget forecasts, practices for preparing those forecasts, and both the content and form of periodic public financial reports.

# Financial Forecasting & Reporting

**In summary on this topic, this review finds that:**

- The County's budget forecasts have been within general industry and peer standards for accuracy,
- Budget forecasts for the coming fiscal year appear to be reasonable,
- The County's multi-year forecasting functions should be improved and formalized,
- The summary content of regular financial reports should be improved.

# Budget Forecast Accuracy

The ability of a government to create meaningful financial budgets and plans is dependent on the accuracy of their forecasting.

Mendocino's budget forecasts more accurate than most peers and within standards:

- Over the last five years, actuals results have varied from budget by 0.8%, well within 2-5% standards.
- FY23-24 results varied by 2.9% versus 13.8% for select peers.

## Original Budget vs. Actual Results (FY23-24 ACFR)

County	Net
Humboldt	34.5%
Shasta	24.4%
<b>Average</b>	<b>13.8%</b>
Napa	13.7%
Nevada	12.0%
Kings	10.0%
<b>Mendocino</b>	<b>2.9%</b>
Yolo	0.9%

# Improved Reporting Would Better Preview Trends

**Budget status reporting informs the Board and management of changes as they occur, a critical element of managing the budget after it's adoption.**

**Current practices are in line with general practices but could be improved:**

- Quarterly reports provided within 4-8 weeks of close the period
- Valuable detailed content, improving over the last four years reviewed
- Improvement recommended: Better summarize top-line trends - the big picture story

# Highlighting the Big Picture

**Clear and concise executive summary that recaps the “big picture:”**

- **Avoid surprises:** Net projected revenue and expenditure projections for the current fiscal year
- **Material changes:** Projected change in the position of major reserves
- **Action needed:** Highlight department overspending, other areas where intervention is required
- **Discuss risks:** Discussion/quantification of key risks and potential changes
- **Future consequences:** Implications for development of the following fiscal year’s budget

**The CEO’s Office has begun to incorporate these elements in the FY25-26 Q2 & Q3 reports.**

# Improved Long-Term Forecasting is Needed

**The County should improve its longer-term forecasting and planning to better guide the County's financial path forward.**

- Longer-term forecasts (typically forecasting revenues and expenditures for 3-5 years) are critically important to inform the development of the annual budget and the ability to meet multi-year commitments for infrastructure plans, employee labor contracts, and future service levels.
- Absent regular and well-developed long-term forecasting, a government risks making financial plans for a 12-month period that aren't supported by longer-term trends.

# Improved Long-Term Forecasting is Needed

**The County has made important improvements in their long-term forecasting in the last year.** Last Year: Preliminary 2-year estimate. This Year: Preliminary 5-year estimate.

**Preliminary improvements should be developed and formalized:**

- Adopt a formal policy to require the annual production of long-term forecast to kick-off the County's annual budget process.
- Further develop more nuanced long-term projections of expenditures, revenues, and service trends in a formal and public report to inform next year's budget process.

# Examples of Other Local Government Forecasts

Jurisdiction	Summary
City of Palo Alto, CA	Ten-year forecast prepared per adopted city financial policies. Includes explicit assumption of revenue and expenditure drivers and includes multiple scenarios, including those from a recession.
City and County of San Francisco, CA	Five-year financial plan required every two years by county charter. Update forecasts required twice annually by Administrative Code to frame annual budget development.
Monterey County, CA	Annual budget proposal includes explicit three-year forecast, including baseline scenario with clear assumptions.
City of Oakland, CA	Five-year forecast required every two years by adopted financial policy, corresponding with preparation of two-year budget.
City of Santa Cruz, CA	A 10-year forecast created at Council direction. Consultant-supported initial development, with modeling tools delivered to the City for ongoing use as part of the project plan.

# Financial Policies: One-Time Revenues

**Using one-time revenues to pay for ongoing expenditures can quickly create structural deficits for governments, as expenditures recur and the revenues used to support them are exhausted.** These one-time revenues are best matched with one-time investments in capital, payment of unfunded pension or other long-term liabilities, and other non-recurring investments.

The recommended and recently-adopted reserve policy prohibits the use of prior year funds for ongoing spending, but other one-time sources will occur in the future. While the County's practice in the current year budget has been to appropriately match ongoing spending with ongoing revenues, adoption of a formal financial policy governing future years is recommended.

# Examples of Other Local Government One-Time Revenue Policies

Jurisdiction	Summary
Sonoma County, CA	Prohibition on use of one-time revenues for ongoing expenses; exception for separately approved investments designed to reduce long-term costs.
City of Eureka, CA	Categorizes grants, legal settlements, asset sales, and federal relief as one-time resources.
City and County of San Francisco, CA	Specific definitions of one-time (non-recurring) revenues, required for one-time use absent suspension of the policy by a supermajority Board vote.
Contra Costa County, CA	Broad financial policy establishes requirement that ongoing spending shall be supported by ongoing revenues; short-term (non-recurring) revenues for capital and one-time investments.
City of Oakland, CA	Explicit one-time revenue policy; restricts one-time funds for one-time purposes except in an emergency.

# Recommendation Summary Recap

1. **Adopt revised financial policies** governing reserves, fund balance, and use of one-time revenues to better safeguard the County's long-term financial health.
2. Adopt changes to quarterly financial reporting to more **clearly summarize key trends** affecting the County's finances and to better enable the CEO and Board to manage the annual budget.
3. **Create a multi-year financial forecast each year** to guide the County's development of the annual budget and better plan for multi-year labor contracts and longer-term capital needs.
4. Address core financial operational deficiencies by **upgrading and reimplementing its financial system**, using this multi-year project to redesign numerous financial operational processes to improve efficiencies and controls.
5. **Improve revenue collection and reduce resident impacts** by clearing the backlog of property tax assessments, stabilizing staffing in the Assessor's Office, and complete projects needed to improve longer-term office procedural efficiency.

# Recommendation Summary Recap

**These recommended actions will address the key weaknesses highlighted in recent State audits:**

- Strengthen the County's financial resiliency by bolstering the financial policies that safeguard County services through economic cycles,
- Improve projections and reporting that guide the preparation of the County's annual budget,
- Modernize financial procedures and the systems that support them, improving staff efficiency and closing known internal control weaknesses,
- Fortify the County's revenue base by improving property tax collection, the County's largest single general fund revenue source.

Comments, questions, feedback?

# Appendix: Recommendation Milestones & Timelines

# Financial Operations & Systems Recommendations

- a. Prepare for the project launch: Establish steering committee, research peer implementation experiences, begin hiring and procurement processes. Calendar 2026  
Q3 - Q4
- b. In year one of that project, document current and revised operating procedures, redesign the County's chart of accounts, and answer key implementation questions. Present project implementation plan to the Board at close of this phase. 2027 Q1 -  
2027 Q4
- c. Design, test, train, implement, and go-live with the financial system and new operating processes. 2028 Q1 -  
2029 Q4
- d. Utilize new desk procedures, ongoing training, and regular system upgrades to retain efficiency and internal control gains achieved through this project. 2029 -  
Ongoing

# Revenue Collection Summary Recommendations

- a. Assess drivers of high levels of staff turnover that destabilize the Assessor's Office operations, developing interventions to address them. Calendar 2026  
Q3-Q4
  
- b. Develop a measurable, workload driven plan to reduce and eliminate the backlog of property tax assessment events. Secure resources to implement the plan and report on progress each quarter until the backlog is eliminated. 2026 Q3 -  
2028 Q3
  
- c. Complete other long-term system and process improvement projects to improve long-term office efficiency, including data clean-up and process improvements needed to automate processes. 2026 Q3 -  
2027 Q3

# Financial Policies

a. Develop and adopt a revised reserve policy

Calendar 2026 Q2  
(completed)

b. Develop and adopt a one-time (non-recurring) revenue policy

2026 Q3

# Financial Forecasting & Reporting

- |                                                                                                                                                                                                |                        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| a. Build-out the summary content of quarterly financial reports to improve the report's utility to the Board, CEO, and department heads.                                                       | Calendar 2026<br>Q2-Q4 |
| b. Adopt a County financial policy requiring the annual preparation and publication of a multi-year forecast to guide the County's budget preparation and long-term financial decision-making. | 2026<br>Q3             |
| c. Regularly prepare a multi-year forecast to guide the development of the annual budget and inform long-term financial decision-making.                                                       | 2026 Q3-<br>2027 Q1    |