# COUNTY OF HUMBOLDT

**For the meeting of:** 2/6/2024

**File #:** 24-34

**To:** Board of Supervisors

**From:** County Administrative Office

**Agenda Section:** Departmental

**Vote Requirement:** 4/5th

SUBJECT:
Mid-Year Budget Review for Fiscal Year (FY) 2023-24, Budget Outlook for FY 2024-25 and Recommendations for Budget Adjustments (4/5 vote required)

RECOMMENDATION(S):
That the Board of Supervisors:

1. Receive and file a review of the current FY 2023-24 budget and the budget outlook for FY 2024-25;
2. Direct the County Administrative Officer (CAO) to prepare the FY 2024-25 budget based on the following parameters:
    a. Set General Fund allocations as status quo to FY 2023-24 with the following adjustments:
        i. Include the FY 2023-24 ongoing, Board-approved additional requests for General Fund appropriations (ARGFA);
        ii. Apply a 20% reduction to those ARGFA amounts;
        iii. Reduce by any applicable Voluntary Separation Incentive Program (VSIP) and exempt departments that participated in the VSIP from the 20% ARGFA reduction;

    b. Evaluate possible reductions to General Fund contributions to other funds in budget 1100-199;
    c. Deallocate FY 2024-25 unbudgeted General Fund positions;
    d. Accept and consider requests for additional General Fund appropriations (ARGFA) limited to one-time expenditures;
    e. Set the annual departmental contributions to Public Agency Retirement Services (PARS) to 2% of annual salaries;
    f. Suspend the annual contribution to Deferred Maintenance Trust Fund (3464) for FY 2024-25;
    g. Approve the transfer from the Tax Loss Reserve of $2 million, so long as the minimum reserve is retained;
    h. Consider transferring to the General Reserve to meet county policy requirements;

i. Reallocate ARPA funding not committed or expended by the end of FY 2023-24 with priority given to previously allocated ongoing costs;
j. Provide additional direction to staff on actions to close the FY 2024-25 projected General Fund budget deficit;

3. Approve the list of budget adjustments (Attachment 1) and authorize County Administrative Office (CAO) staff to make any technical corrections necessary to effectuate the Board's direction (4/5 vote required);
4. Direct staff to return at third quarter only if the budget parameters set forth for FY 2024-25 require substantial changes;
5. Consider appointing two (2) Board Members to an FY 2024-25 Budget Ad Hoc Committee;
6. Provide staff direction on departmental reorganization; and
7. Provide additional direction to staff as appropriate.

SOURCE OF FUNDING:
All county funds

DISCUSSION:
Historically, the CAO undertakes a mid-year financial review each fiscal year. The mid-year review serves the dual purpose of monitoring the county's budget for the current fiscal year and providing staff, your Board, and the public with a preview of the county's financial status going into the next budget year. As noted in the First Quarter Budget Report, the Auditor-Controller's Office is working with the outside auditors to complete FY 2021-22 and FY 2022-23 annual audits still. As a part of this process, there may be additional transactions posted which could impact the numbers reported in this mid-year budget report.

This report has been divided into four key sections:

1. A review of the estimated financial condition of the General Fund and major revenue sources for FY 2023-24 and projected revenue for FY 2024-25;
2. An overview and budget outlook of the known factors which may affect the county's financial condition heading into the next fiscal year, including a potential recession;
3. Policy decisions for your Board to consider in evaluating the county's current and projected financial conditions; and
4. A schedule for preparing the county's budget for FY 2024-25.

**Section 1: Review of Mid-Year Financial Condition for FY 2023-24 and Look Ahead to FY 2024-25**

**1100-General Fund**

The fund containing the majority of county programs is the General Fund. This fund is the source of discretionary money derived from local revenue sources, such as property tax, and is available to be spent on local needs. Staff reported in the First Quarter Budget Report for FY 2023-24, the General Fund began FY 2023-24 with an estimated positive fund balance of $36.9 million, which included $7.9 million of Measure Z funding. As reported at that time, there was still work to be done by the Auditor-

Controller to close FY 2022-23. As that work continues, fund balances may continue to change some. As of this mid-year budget report, the estimated FY 2022-23 ending fund balance for the General Fund is $38.3 million, an increase of $1.5 million from what was reported at the First Quarter. The FY 2023-24 budget was adopted with an $18.4 million use of fund balance.

**Property Tax**

The main source of discretionary revenue for the county is property taxes. Annually, per Government Code Section 29100, your Board sets the tax rates for the secured roll for the County of Humboldt, school districts and special districts. On Sept. 26, 2023, your Board set the tax rate for FY 2023-24 at $1 per $100 of assessed value. In FY 2023-34, tax assessments saw an unprecedented 6% increase over the prior year. At budget time, staff estimated tax increases to be 2%. As a result of this increase in the tax assessments, the General Fund is estimated to receive an additional $1.3 million in discretionary property tax revenue in FY 2023-24.

**Bradley Burns Sales Tax**

The Bradley Burns Uniform Sales and Use Tax Law provides for a city/county rate of 1.25%. One-quarter percent of the levy is sent to the county-wide regional transportation fund and the balance or 1.0% supports local government general funds. Sales tax is allocated back to the jurisdiction (city or unincorporated county) where the sale was negotiated, or order taken (point of sale). As such, the Bradley Burns Sales and Use Tax received by the county is associated with sales that originate in the unincorporated areas of Humboldt County.

Bradley Burns Sales Tax continues to decline for Humboldt County, though it is anticipated that it will begin to make small increases in the coming years. Hinderliter, de Llamas & Associates (HdL), the county's sales tax consultant, provides quarterly sales tax reports and sales tax projections to staff on the Bradley Burns Sales Tax and the Measure Z Sales Tax. HdL has been in operation since 1983 and has a track record of providing reliable tax projections and reporting. HdL is projecting sales tax will be down $422,914 from the original FY 2023-24 budget of $6.0 million. County sales tax receipts are down 5.4% over the prior year for Quarter 3 (Q3), 2023. In comparison, the overall county is down by 2.0% and the state as a whole is down by 1.3%. Fuel and Service Stations continue to be the primary business sector on decline for the county, dropping by 12.1% over the prior year in Q3. This is also on trend with the state, though slightly larger with the state dropping 8.1%. This is primarily due to the large spike in fuel prices in 2022 and the state's focus on promoting electric vehicles.

The early estimate by HdL for FY 2024-25 Bradley Burns sales tax revenue is $5.7 million. A decrease of $269,365 from the current year budget, but a slight increase from the revised estimated for FY 2023-24 of $5.6 million. The local economic decline has had a steep impact on sales tax revenue over the last few years, with a decline from a projected $7.3 million in the FY 2022-23 adopted budget, to receiving just over $5.5 million.

| Bradley Burns Sales Tax | |
|---|---|
| **Fiscal Year 2022-23** | |
| Adopted Budget | 7,300,000 |
| Actuals | 5,540,540 |
| Decrease | (1,759,460) |
| **Fiscal Year 2023-24** | |
| Adopted Budget | 5,976,000 |
| Revised Estimated Actual | 5,553,086 |
| Decrease | (422,914) |
| **Fiscal Year 2024-25** | |
| Projected | 5,706,635 |

**Measure Z Sales Tax**

Measure Z sales tax is collected on a different basis (destination or place of use vs. point of sale) than the county's Bradley Burns sales tax. Add-in or local, voter-approved district sales taxes like Measure Z are collected county- or district-wide, so the revenue is reflective of the whole county in the case of Measure Z, including the incorporated cities. HdL is projecting Measure Z will increase by $578,383 from the original FY 2023-24 budget of $12.7 to $13.2 million. The preliminary projection for FY 2024-25 Measure Z sales tax revenue is $13.0 million, reflecting a very minimal increase over prior year estimates and a small decrease from the revised projection for FY 2023-24 revenues of $13.2 million.

On Jan. 23, your Board elected to accept Measure Z Advisory Committee recommendations to revise the Measure Z process to only allocate funds once per year through the budget process, establish a reserve in order to allow for flexibility in case revenues come in short, and include the Committee in planning for the next 3-year allocation cycle. Additionally, your Board chose to allocate $1 million of the available $5.4 million in Measure Z fund balance to a specified list provided by Public Work's for road repairs in FY 2023-24. The budget adjustment for this is included in today's staff report (Attachment 1), in addition to an adjustment for Sheriff's Measure Z due to delays in invoice processing. Measure Z is anticipated to end FY 2023-24 with a fund balance of $5.3 million, of which $864,000 is set aside for reserve, leaving $4.4 million estimated to be remaining at the end of FY 2023-24.

| FY 2023-24 Estimated Fund Balance<br>Measure Z | |
|---|---|
| FY 2023-24 Beginning Fund Balance | 7,920,867 |
| Estimated Revenues | 13,240,000 |
| Estimated Expenditures | 14,876,270 |
| Estimated Other Financing Sources (Uses) | - |
| **Fund Balance Adjustments** | |
| Roads Allocation | (1,000,000) |
| Estimated Fund Balance Adjustments | **(1,000,000)** |
| Estimated Use of Fund Balance | (2,636,270) |
| FY 2023-24 Estimated Ending Fund Balance | 5,284,597 |
| Established Reserve | (864,000) |
| FY 2023-24 Estimated Ending Available Fund Balance | 4,420,597 |

## Proposition 172 Revenue

Proposition 172 (Prop 172) public safety funds are allocated to counties based on the percentage of statewide tax (Bradley Burns) generated by their county for the prior calendar year. The allocation of FY 2023-24 is based on the calendar year 2022 sales tax receipts. During the pandemic, there was a shift in where sales taxes were generated. Los Angeles, San Francisco, Orange, San Mateo and Alameda counties, which normally generate the largest percent of sales taxes led the top five counties experiencing decreases during the pandemic. During that time many rural counties, including Humboldt, fared better than the more urbanized counties.

For the second year in a row, Prop 172 revenues are trending as reducing by more than $1 million from the prior year. Revised projections for FY 2023-24 for the county share of Prop 172 revenues are $444,000 less than the budget of $11.8 million. Looking forward to FY 2024-25, projections are anticipated to be relatively stable with just a slight reduction of less than $100,000 from the current FY 2023-24 projections.

## Measure S

On Oct. 3, 2023, your Board approved the assessment of the Measure S Cannabis Excise taxes at 10% for cultivation year 2024, to be collected in 2025. Additionally, your Board directed staff to modify the ordinance to allow suspension or revocation of permits due to unpaid taxes and established a deadline of June 30, 2024 for cultivators with outstanding balances to setup a payment plan or pay past due balances. Subsequently, on Oct. 24, 2023, staff returned with recommendations to implement this in which your Board extended this deadline for payment to Mar. 31, 2025. These actions could result in additional revenue in the FY 2023-24 or FY 2024-25 budgets; however, it is unknown how much will be collected from this, and refunds are still being processed, therefore, staff will recommend that no revenue be budgeted from this source in the FY 2024-25 budget.

## Transient Occupancy Tax (TOT)

TOT revenues have continued to come in above budget. FY 2022-23 revenues exceeded the prior year by 8%, or $263,602. TOT revenues were budgeted at $3 million for FY 2023-24, including the 2% increase for Measure J and is on track to exceed that budget by an anticipated $1 million. On Feb. 7, 2023, your Board allocated Measure J funds in the amount of $880,000 through FY 2023-24 to the following:

**Measure J TOT FY 2023-24**

| | | | |
|---|---|---|---|
| Housing | 30% | $ | 264,000 |
| Arts | 30% | $ | 264,000 |
| Safety | 30% | $ | 264,000 |
| Film | 10% | $ | 88,000 |
| Tourism | 0% | $ | - |
| **Total** | **100%** | **$** | **880,000** |

Your Board elected to only allocate through FY 2023-24 and reconsider these allocations for FY 2024-25. Staff will bring this back with the FY 2024-25 proposed budget for your Board to reconsider these allocations.

## Estimated FY 2023-24 General Fund - Fund Balance

As identified by departmental mid-year reviews, General Fund net costs through June 30, 2024, show expenditures exceeding revenues by $12.4 million instead of $18.4 million.

| FY 2023-24 Estimated Fund Balance<br>1100 - General Fund | |
|---|---|
| Beginning Fund Balance | 38,348,196 |
| Estimated Revenues | 146,527,108 |
| Estimated Expenditures | 160,017,145 |
| Estimated Other Financing Sources (Uses) | 2,114,332 |
| **Fund Balance Adjustments** | |
| 1/23 Board Allocation $1M in Measure Z funds to Public Works | (1,000,000) |
| Estimated Fund Balance Adjustments | **(1,000,000)** |
| Estimated Use of Fund Balance | (12,375,705) |
| Estimated Ending Fund Balance | 25,972,491 |

This positive news is primarily due to the following:

- $3.1 million in increased discretionary revenues including increases in property taxes, unbudgeted Measure S tax collections, TOT and increases in state apportionments
- $578,383 in increased anticipated Measure Z revenue
- $1 million in anticipated expenditure savings by the Probation Department
- $1.3 million in anticipated expenditure savings by the Sheriff's Office

- $975,390 in anticipated expenditure savings by the Planning & Building Department

These savings and increased revenues are offset by your Board's appropriation to increase expenditures of $1 million of Measure Z fund balance for road maintenance repairs. Of the nearly $26 million estimated to be available to fund FY 2024-25, $5.3 million is Measure Z fund balance resulting in a remaining $20.7 million in available General Fund.

**Department of Health and Human Services Funds (1110, 1160, 1170, 1175, 1180 & 1190)**
The Department of Health and Human Services (DHHS) is an integrated department providing prevention, intervention and targeted treatment services for Behavioral Health, Public Health, and Social Services. DHHS operates its many programs as separate but connected budget units. Much of the funding comes from the state and federal government as reimbursable grants and other contract programs. The challenge, for DHHS, is the time it takes for reimbursement of expenditures, which can extend many years. As a result, programs often operate at a deficit, and it is difficult to estimate when reimbursement will be received.

Budgeted revenues and expenditures remain on target through mid-year. DHHS is estimated to have ended FY 2022-23 with a fund balance of ($2.1 million), an improvement in negative fund balance by $3.2 million from the previous fiscal year. As reported in the First Quarter Budget Report, the primary source of this negative fund balance is due to Fund 1160, Social Services Administration which has experienced a delay in receipt of state and federal funds.

DHHS anticipates that the year-end fund balance will be $5.1 million, an improvement of $7.2 million due to receipt of outstanding state and federal funding in Fund 1160. Despite this positive improvement, Fund 1160 will maintain a negative fund balance of $8.7 million going into FY 2024-25. As reported at First Quarter, DHHS-SSB reports sufficient outstanding receivables to return the fund to the positive once received. However, the Mental Health fund will increase its negative status by ($618,456), bringing the negative fund balance for Fund 1170 to ($5 million). DHHS is continuing to work with the Department of Health Care Services on prior fiscal years' cost settlement processes to resolve this ongoing negative balance. In the chart below, the combined DHHS fund balance is anticipated to return to the positive by the end of FY 2023-24.

| FY 2023-24 Estimated Fund Balance<br>DHHS | |
|---|---|
| Beginning Fund Balance | (2,140,086) |
| Estimated Revenues | 293,188,015 |
| Estimated Expenditures | 293,765,884 |
| Estimated Other Financing Sources (Uses) | 385,784 |
| **Fund Balance Adjustments** | |
| Accounts Receivable to be received in FY 2023-24 | 7,473,605 |
| Estimated Use of Fund Balance | 7,281,521 |
| Estimated Ending Fund Balance | 5,141,435 |

## 1120 - Economic Development Fund

As reported at the First Quarter, the Economic Development fund ended FY 2022-23 with a fund balance of $722,907. In reconciling the Project Trellis Cannabis Equity program which receives funding from the state, staff discovered that the $347,000 FY 2022-23 match for the program was never distributed from the General Fund. A budget adjustment is included with this report to distribute those funds in FY 2023-24 to remain in compliance with the grant program. Staff continue to finish reconciling Project Trellis and are working with Clifton Allen Larsen on a reconciliation of Headwaters. The projected ending fund balance for Economic Development is anticipated to change upon completion of these reconciliations.

In addition, Economic Development has provided significant support to the Board of Supervisors on various projects to support their districts and other Board priorities. These activities are not reimbursable through grant funds. It is anticipated that Economic Developments fund balance has gone negative as an impact of this, and that general fund support will be needed in the future.

## 1200 - Roads Fund

At the First Quarter, the estimated ending negative fund balance for the Roads fund in FY 2022-23 was ($8.5 million). As of this mid-year budget report, the estimated FY 2022-23 ending fund balance for the Roads fund is ($7.8 million), an improvement in the negative fund balance of $713,203 from what was previously reported. In addition to this improvement, Public Works' staff reported in the mid-year submission that they will receive the full budgeted amount of more than $20 million in disaster assistance revenue which will result in an improvement in the negative fund balance. The receipt of these disaster assistance funds is included in the estimated fund balance calculation below. Should all of these revenues not be received, the scenario represented below will be further negative.

| FY 2023-24 Estimated Fund Balance<br>1200 - Roads | |
|---|---|
| Beginning Fund Balance | (7,758,845) |
| Estimated Revenues | 46,001,268 |
| Estimated Expenditures | 44,970,911 |
| Estimated Other Financing Sources (Uses) | - |
| Estimated Use of Fund Balance | 1,030,357 |
| Estimated Ending Fund Balance | (6,728,488) |

It is anticipated that the recent 2024 storm damage, totaling over $2.6 million in estimated Category C (Roads and Bridges) damages, will likely impact this Roads fund estimate.

As previously shared, Humboldt County has approximately $500 million in need for road repairs over the next 10 years. According to one recent study, the county has some of the worst pavement conditions in the state, and at current levels of funding, most county roads will be rated as "failed" by 2033. Delaying maintenance and repairs to roads only increases costs in the long run - letting conditions worsen until roads have to be replaced entirely. At the Board's direction, staff has begun working on community outreach efforts regarding road conditions and other issues impacting fiscal sustainability in order to develop a potential solution this year. One possibility that is being considered is a potential sales tax measure for 2024 that could help to provide ongoing, locally- controlled funding for road maintenance, as well as qualify for additional funding from state and federal sources. Staff will continue to monitor the fund balance closely.

**1500 - Library Fund**

As reported at the First Quarter, the Library Fund ended FY 2022-23 with a fund balance of $1.2 million. Budgeted revenues and expenditures remain on target through mid-year and it is anticipated that the Library Fund will end FY 2023-24 with very little change to fund balance.

| FY 2023-24 Estimated Fund Balance<br>1500 - County Library | |
|---|---|
| Beginning Fund Balance | 1,236,163 |
| Estimated Revenues | 5,165,775 |
| Estimated Expenditures | 5,158,819 |
| Estimated Other Financing Sources (Uses) | - |
| Estimated Use of Fund Balance | 6,956 |
| Estimated Ending Fund Balance | 1,243,119 |

**3530 - Aviation Enterprise Fund**

As reported at the First Quarter, the Aviation Enterprise Fund ended FY 2022-23 with a fund balance of $35.3 million. The Aviation Enterprise Fund has significant fixed assets which attribute to the large fund balance, and its available cash balance ending FY 2022-23 was $3.4 million. Budgeted revenues and expenditures remain on target through mid-year and it is anticipated that the Aviation Enterprise Fund will end FY 2023-24 with very little change to fund balance.

| FY 2023-24 Estimated Fund Balance<br>3530 - IGS-Airport Enterprise Fund | |
|---|---|
| Beginning Fund Balance | 35,254,454 |
| Estimated Revenues | 17,726,799 |
| Estimated Expenditures | 17,729,799 |
| Estimated Other Financing Sources (Uses) | - |
| Estimated Use of Fund Balance | (3,000) |
| Estimated Ending Fund Balance | 35,251,454 |

### Internal Service Funds

The county has 14 Internal Service funds (ISF) that provide services to other county departments. The county's ISFs are comprised of the following: Motor Pool; Heavy Equipment; Risk Management (8 ISFs); Communications; Purchasing; Americans with Disabilities Act (ADA); and Information Technology. Based on mid-year submissions, it is anticipated that these funds will end FY 2023-24 with a year-end fund balance of $40 million, an increase of $4.2 million from the previous year.

The Purchasing Fund is estimated to end FY 2023-24 with a negative fund balance of ($32,155), an improvement in the negative fund balance of $10,092 over the prior year. Staff have completed a fund reconciliation and will increase future charges to account for this negative balance. It is anticipated that this will be corrected in FY 2024-25. The Purchasing Fund is the only ISF with a negative fund balance. The larger than normal total ISF fund balance accumulation is primarily due to funds in the Communications budget for the Radio Infrastructure Project and delays in vehicle and equipment purchases in the Motor Pool and Heavy Equipment budgets. As part of the development of the ISF charges in FY 2024-25, staff will utilize fund balance to reduce charges for county departments where possible.

## Section 2: Budget Outlook for Fiscal Year 2024-25

As your Board directs county staff to begin preparing a budget for next fiscal year, consideration will be paid both to the position of county funds as of mid-year (the subject of the prior section of this report) and to the potential impacts of other factors, both internal and external. The primary factors to consider will be the proposed state budget, the economy and the need for long-range planning. This is especially important, given the county's structural budget deficit.

### The Proposed State Budget

The Governor released the state's Proposed Budget for FY 2024-25 on Jan. 10, 2024. The real budget debate does not begin until late May after the "May Revise" is issued, reflecting state income tax receipts. Typically, a large percentage of the proposals from the January release are carried forward into the May Revise. In FY 2023-24, tax deadlines were extended and therefore, the state did not have the income tax receipts when developing the FY 2023-24 budget. Unfortunately, receipts were much less than anticipated. Similar to the county, the Governor's budget is projecting a budget deficit.

The Legislative Analyst's Office (LAO) reports the Governor proposes to solve the $38 billion budget problem by focusing on spending reductions primarily, as well as drawing on reserves, cost shifts, and a small number of revenue-related solutions. Expenditure cuts are limited primarily to one-time, temporary reductions in spending with large reductions in schools and community colleges. The Governor is proposing to use $13 billion from the Budget Stabilization Account and $900 million from the Safety Net Reserve. This leaves $11 billion in the Budget Stabilization Account should the budget problem persist for another year as the Governor's Administration is anticipating the budget deficit to persist until at least FY 2027-28. The state deficit will hit departments in the county with large amounts of state funding the hardest such as DHHS.

**Expenditure Increases for FY 2024-25**

**Personnel Costs**
Salaries and benefits will continue to strain the county's operating budgets. While the increases are much lower than in prior years, due to no additional planned cost of living adjustments (COLA's), as well as improvement in salary projections due to new budgeting software, salaries and benefits are the largest expense in the General Fund.

CalPERS returns were less than anticipated in FY 2023-24 at 5.8%. For this reason, Unfunded Accrued Liability costs are expected to increase in FY 2024-25, while regular retirement costs are anticipated to stay relatively stagnant. Given CalPERS is a pre-funded plan, changes to, or a failure to realize, any of the assumptions that underlie its targets for funding must be made up by adjusting employer contributions in future years. The cost for non-safety employees is anticipated to increase by 3.85%. and for safety employees by 5.69%. Based on FY 2023-24 retirement costs, these increases are anticipated to cost an additional $2.2 million in the General Fund based on prior year projections.

Overall, county-wide salaries and benefits are projected to increase 2.8% or by $7.7 million. In contrast, the General fund is projected to reduce salaries and benefits by (0.5%) or by $505,488. Increases in non-General Fund departments are the result of equity adjustments, salary increases, and new positions, while all county departments are showing improvements due to more precise projections. Specifically, in FY 2023-24 health benefits were overestimated, thus in FY 2024-25, health benefits are estimated at ($3.7 million) less than the prior year. As mentioned previously, retirement costs are estimated to increase substantially in FY 2024-25 due to poor returns in CalPERS in FY 2023 -24. The overall countywide increase is estimated to be by $7.9 million in FY 2024-25, or 14.3%. Without large salary increases in the coming year, many of the other benefit costs including taxes and PARS are relatively stable.

**Insurance**
In addition to the labor cost increases, general liability and workers compensation insurance costs are also expected to continue to increase. Overall, initial estimates indicate that liability insurance premiums for the county are projected to increase by $885,263 or 15.0% and workers compensation is

anticipated to increase by $1.0 million or 12.3%. Year after year, insurance costs continue to rise at a level that does not keep pace with revenues, it has been and will continue to be difficult for some departments to continue to absorb these increases, particularly those allocated higher percentages of the costs based on prior claims history, such as the Sheriff. In FY 2023-24, the General Fund housed 48.9% of workers compensation charges and 45.1% of liability charges. Based on these percentages, the anticipated increase to the General Fund in FY 2024-25 is $890,288.

**American Rescue Plan Act (ARPA)**
In the past couple of fiscal years, your Board has utilized one-time funds, such as CARES Act and American Rescue Plan Act (ARPA) to fund ongoing increases in expenditures. In FY 2023-24, this was present as an increase in General Fund structural deficit as one-time funds used for personnel costs were absorbed back into the General Fund. In FY 2023-24, the budget included $2.6 million of ARPA funds for ongoing costs:

- $233,094 - 3.0 FTE HR Technicians
- $226,244 - 1.0 FTE IT Technician and 1.0 FTE IT Security Analyst
- $1.8 million - Jail Medical Contract
- $397,318 - Sheriff's Personnel Costs

**Revenue Changes for the General Fund**
In summary of the revenue projections above, FY 2024-25 overall revenue is projected to be relatively stable based on FY 2023-24 actuals. In FY 2024-25, property tax discretionary revenue is anticipated to increase by 2% over the estimated actual FY 2023-24 revenue, or $591,833. Sales tax is estimated to increase by $153,549. In FY 2023-24, the budget included a one-time revenue of $250,000 due to cancelling checks, a process which had not been completed in more than a decade. This revenue is only anticipated to be $25,000 going forward. As previously mentioned, the TOT has outperformed the budgeted revenue by $1 million in this year. It is anticipated that TOT will remain stable at this level in FY 2024-25.

As reported on Jan . 23, Measure Z sales tax is estimated to be $13 million in FY 2024-25, a reduction from the revised estimated revenue for FY 2023-24 of ($240,000), but an increase of $329,745 over the FY 2023-24 adopted budget. For this budget year, Cannabis Excise Tax is difficult to predict as the impact of your Board's changes to the collections process are implemented, therefore, no revenue will be budgeted for this tax in the coming year. As can be seen by the expenditure estimates on the previous pages, expenditure increases are continuing to outpace revenue increases.

**Local and Tribal Consistency Funds (LATCF)**
Through the American Rescue Plan Act, the U.S. Department of the Treasury established the Local Assistance and Tribal Consistency Fund (LATCF) distributing funds to eligible revenue sharing counties and Tribal governments for use on any governmental purpose. This program is intended as a general revenue enhancement program intended to augment or stabilize revenues.

The county was awarded $3.2 million in LATCF funds to be distributed in two separate tranches, one in Federal Fiscal Year (FFY) 2022 and one in FFY 2023. On Jan. 10, 2023, your Board allocated $1 million of these funds to establish an Earthquake Recovery & Assistance Program to assist residents displaced as a result of the December 2022 earthquake and subsequent aftershocks. At this time, $2.2 million remains available, however, staff recommends holding these funds as unallocated while staff and your Board continue to work to stabilize the General Fund.

**General Fund Shortfall**

The chart below details the projected FY 2024-25 shortfall in the county's General Fund. This is similar to last year. As a contrast to last year, there are fewer options available to your Board to close this funding gap. As was relayed at the mid-year in FY 2022-23, the challenge with using one-time or temporary funding sources is that none of these sources fund the current long-term structural deficit and are heavily dependent on annual budget savings, future budget reductions and/or identifying, and successfully implementing, future revenue streams. The result of relying on short-term and one-time funding is the inability to create longer-term strategic goals that require new or increased funding sources. As a result of this, staff recommend utilizing the remaining General Fund balance in the coming year to close this gap. Going forward, a priority must be placed on expenditure reductions. Departments have simply trimmed expenditures as much as possible. It is recommended that your Board consider larger action such as reorganization or program reductions to address this ongoing deficit. This is not imminently necessary in FY 2024-25, but in the interest of planning for FY 2025-26, it is critical to begin to consider these strategies as options.

The estimated shortfall for FY 2024-25 will be $12.29 million. Based on an estimated $20.7 million of available fund balance for FY 2024-25, there will be enough funds to cover the General Fund shortfall. Since many departments' budgets have not been accounting for vacancies, the budgeted shortfall will likely be larger than this.

| General Fund Preliminary Estimated FY 2024-25 Shortfall *(in millions)* | | |
|---|---|---|
| **FY 2023-24 Estimated Actuals Fund Balance Use** | | **(12.38)** |
| **Revenue Changes from Estimated FY 2023-24** | | |
| Proposition 172 Decrease | | (0.08) |
| Sales Tax Increase | | 0.15 |
| Property Tax Increase | | 0.59 |
| Cancelled Checks Decrease | | (0.23) |
| Measure Z Decrease | | (0.25) |
| | **Total** | **0.18** |
| **Salary & Benefit Changes** | | |
| VSIP estimated vacancy savings as reported at First Quarter | | 1.12 |
| 20% ARGFA Reduction | | 1.36 |
| Salary & Benefit and Health Decreases | | 2.70 |
| Retirement Increases | | (2.19) |
| | **Total** | **2.99** |
| **Other Expenditure Increases** | | |
| FY 2023-24 ARPA Funded Ongoing Costs | | (2.19) |
| Worker's Comp and Liability Insurance | | (0.89) |
| | **Total** | **(3.08)** |
| **Preliminary Estimated FY 2024-25 Shortfall** | | (12.29) |

## Section 3: Policy Considerations

### FY 2023-24 Considerations

On May 22, 2023, your Board considered the ARGFA's for FY 2023-24. In this process, your Board requested staff bring back three ARGFA's for consideration at midyear. Those ARGFA's are:

- $172,694 for County Counsel to fill a vacant 1.0 Full-Time Equivalent (FTE) Deputy County Counsel IV position - your Board did not fund this in FY 2023-24.
- $191,798 for Elections to expand staffing by 1.0 FTE Elections Specialist for implementation of the Voter's Choice Act vote centers with higher skilled election workers - your Board funded a reduced request in the amount of $154,833 to utilize extra help for this purpose in FY 2023-24.
- $4,359,293 for 34 existing positions in the Sheriff's Operations - your Board funded a reduced request of $3,561,594 eliminating funding for 7.0 Sheriff Deputy I/II positions.

It is not recommended that you increase funding for any of these requests at this time and prioritize funding the FY 2024-25 projected costs.

At the FY 2023-24 Proposed Budget presentation, your Board directed staff to bring back a number of cost reduction options for consideration at mid-year. To implement in a more timely fashion, staff returned with a majority of these options earlier than this report. Implemented cost reduction strategies include the Voluntary Separation Incentive Program (VSIP), hiring freeze and voluntary furlough. Additionally, at the First Quarter Budget Update, your Board elected to remove mandatory furlough from consideration and terminated the hiring freeze for departments that did not submit an ARGFA for FY 2023-24. The remaining scenarios for consideration are reorganization, teleworking, and an evaluation of unmandated services. Teleworking will be brought back by staff at a later date in the form of a policy revision.

**Reorganization**
During the FY 2023-24 budget process your Board directed the County Administrative Office to return with an analysis of county department reorganizations to improve county efficiencies and look for cost -saving measures. In November of 2023 staff brought to your Board the Director of Finance that would, at the will of the voters, combine the Auditor-Controller's Office, including Payroll, with the Treasurer-Tax Collector's Office, including Revenue Recovery. This action would eliminate the elected positions of Auditor-Controller and Treasurer-Tax Collector by creating the Director of Finance, an appointed position, that would oversee both departments. On Nov. 28, 2023, your Board elected to not pursue the placing the Department of Finance on the March 2024 ballot. It should be noted this is the second time the Department of Finance has come to the Board. The first occurrence was in 2016 and was placed on the Nov. 8, 2016, ballot in the form of two separate ballot questions; one to create a Department of Finance and the second to create an appointed director. Community members expressed confusion at the need for two questions, which likely affected the voting results. The voters elected to not consolidate departments and appoint Director of Finance at that time.

On Feb. 9, 2016, staff brought a report to the Board that included proposals for departmental reorganizations. One reorganization plan was to re-form the General Services Department that previously existed within the organization until 2005. This proposed reorganization included Motor Pool and Facilities Management separating from Public Works, and Information Technology (IT) and Purchasing separating from the County Administrative Office to form the General Services Department. On Aug. 23, 2016, the Board elected to not pursue the General Services Department.

In March 2017, the Board authorized the county to contract with Volaire Aviation, Inc. to study the county's airport system and recommend changes on the system's governance and sustainability. On Dec. 19, 2017, Volaire presented to the Board their recommendations. One of the recommendations contained within their report included removing the Aviation Division from the Department of Public Works and creating a new Department of Aviation, run by its own director. At that meeting the Board directed staff to create the new department. On Aug. 22, 2018 (#18-1126) the Board adopted the ordinance creating the Department of Aviation. The reorganization of Public Works to remove the Aviation Division and form a Department of Aviation run by its own director has proven to be a success. At the formation of the Department of Aviation in 2018, the Aviation Enterprise Fund ended the prior fiscal year with a negative fund balance of ($327,005). Efficiencies and new business opportunities have been realized by moving Aviation to its own department and the Aviation Enterprise Fund is now in a healthy financial position.

Reorganizing departments can help streamline processes, eliminate redundancies, and improve overall efficiency within the county organization. Restructuring of departments can create opportunities for better cross-functional collaboration and communication, leading to increased productivity and innovation. It can provide clarity in defining roles and responsibilities, reducing confusion and improving accountability cross-departmentally and can provide opportunities for the growth and development of county employees by being introduced to new practices, roles and responsibilities.

Just as a reorganization can streamline process, if not handled correctly with a well-thought-out plan and strategy it can lead to disruption, resistance from staff, and decreased morale due to uncertainty of change. During the transition period, communication gaps or breakdowns can hinder productivity and collaboration. When departments are reorganized, there is a risk of losing valuable institutional knowledge and expertise as select employees may choose to separate from the department or may not be included in the reorganization. Restructuring departments may involve additional costs, such as hiring new staff, training, implementing new processes and/or relocating staff.

There are benefits and drawbacks to reorganization. To successfully implement a reorganization staff will need time to develop a plan and communicate with impacted departments to gain mutual understanding of the reasoning and benefits of the reorganization as to mitigate confusion and concerns, and ensure a smooth transition for all departments involved. Staff is asking your Board's direction before developing a reorganization framework and planning of further department reorganization strategies. Your Board may elect to:

- Option 1: Direct staff to explore reorganizations of specific departments.
- Option 2: Direct staff to establish a strategy for reorganization that aligns with the Board's strategic framework, cost-saving measures and/or enhanced services. Staff would return to your Board with reorganization options.
- Option 3: Select Option 2 and direct staff to form a committee to develop strategies and reorganization options.
- Option 4: Direct staff to contract with a consultant to establish a strategy for reorganization that aligns with the Board's strategic framework, cost-saving measures and/or enhanced services, form a committee to review consultant recommendations and return to your Board with reorganization options.
- Option 5: Direct staff to not pursue reorganization strategies at this time.

**Unmandated Services**

A full-scale evaluation of unmandated services is a time-consuming effort for staff and departments. In consideration of this, staff recommend that this opportunity be utilized for the larger purpose of an update to the Continuity of Government Plan (COG). The COG ensures Humboldt County can maintain a viable system of government in response to a broad range of emergencies and operational interruptions. Each department is responsible for preparing their Continuity of Operations Plan (COOP) which describes how a department will operate in the event that an emergency threatens or incapacitates operations. This plan was last updated in 2016 and during the time since then, the county has endured many emergencies including the COVID-19 pandemic and the rise of teleworking.

**FY 2023-24 Budget Adjustments**

The CAO during the Mid-Year Budget Report frequently brings forward budget adjustments on behalf of departments in order to decrease the number of individual items coming to the Board and provide time savings to departments. Contained in Attachment 1 are the supplemental budget and appropriation transfer requests submitted to the CAO.

**One-Time Expenditures**

The following one-time budget adjustments are offset by dedicated revenue sources. Those adjustments are as follows and can be found in Attachment 1:

- $8,764 Sheriff - Cal-ID/RAN (3495-126) - Funding for increased costs including the annual live scan machine maintenance costs, contribution to other government agencies, and purchasing charges that were more than budgeted. This funding is available from Fund 3495 fund balance.

- $132,431 Sheriff - Measure Z Dispatch (1100-297360) - Funding for approved request to purchase medical dispatch software and training for the Sheriff's Office dispatchers in FY2022-23. Due to staffing challenges, the implementation was delayed to late FY2022-23. The invoice was not finalized and paid until FY2023-24. The Sheriff's Office is requesting a roll-over of the unspent funds of $132,431 dedicated for this program to be added as a supplemental in FY2023-24 to pay the invoice.

- ($1,944,850) Advanced Planning - DCC Grant (1100-282701) - The DCC grant funds were received in advance and are being recorded as unearned revenue. As of the end of FY 2022-23 there was only $7,332,595 left but the department has $9,277,445 budgeted in FY 2023-24. This supplemental budget will reduce the budget to ensure there is no overspending.

- $1,000,000 Public Works - Measure Z Roads (1100-298) - Funding for this request was approved by the Board on Jan. 23, 2024, to utilize Measure Z fund balance for road maintenance repairs.

**Transfers from Contingencies**

In addition to the above one-time expenditures, there is one transfer from the Contingency Reserves for a FY 2022-23 one-time expenditure that was missed in the FY2022-23 budget. That recommended budget adjustment is as follows:

- $347,000 Contributions - Other (1100-199) - Funding for the FY 2022-23 Project Trellis Equity match. This is a General Fund contribution. It was not distributed to the Economic Development Fund in FY 2022-23 and is required match for the Board-approved Trellis Equity funds received from the state.

**Appropriation Transfers**

In addition to the above supplemental budgets and transfers from contingencies, appropriation transfers found in Attachment 1 are necessary to accurately reflect expenditures. Those adjustments are as follows:

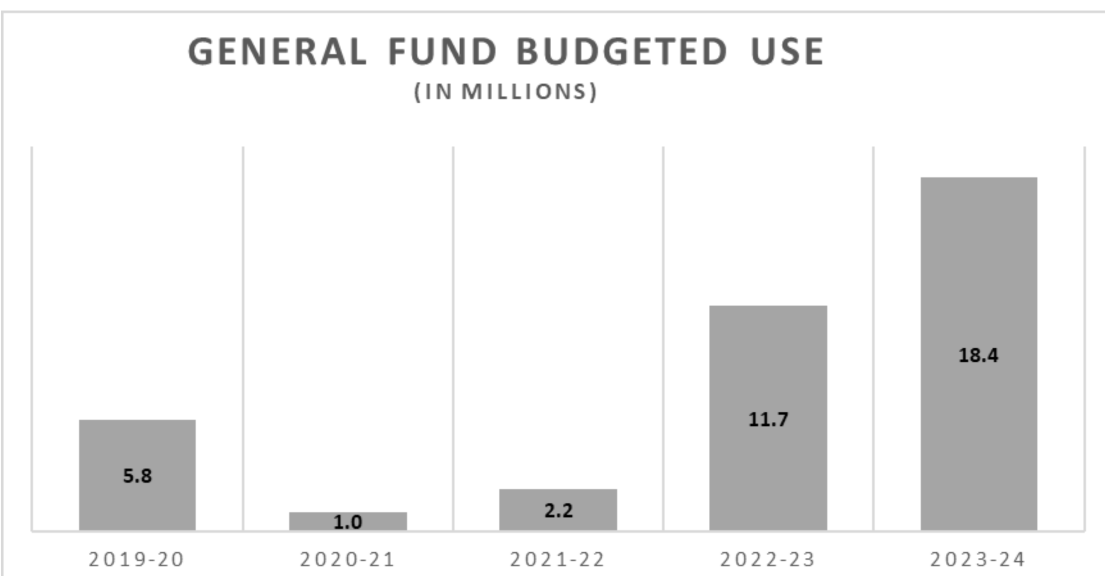
- $23,362 Sheriff - Special Services (1100-221500) - One of the Special Services trucks donated to Motor Pool was up for replacement. The truck is used to tow heavy equipment and the gas engine was not sufficient for safe towing of this equipment. The vehicle was replaced with a truck with a diesel engine. The additional cost for upgrading the replacement vehicle was $23,362 and must be paid from the Sheriff's budget. The Sheriff has sufficient funds to transfer from the services and supplies category.

- $12,948 Sheriff - Boating Safety Grant (1100-221900) - The California State Parks and Recreation Boating Safety and Enforcement Grant (BS&E) approved purchase of a boat trailer after acceptance of the grant. The trailer is $12,948 and a fixed asset is needed. There are sufficient funds in the services and supplies category for an appropriation transfer.

- $392,700 Mental Health Jail Programs (1170-427) - Transfer to increase appropriations for Locum Tenens doctor coverage. Budget appropriations are available from Fund 1170, Budget Unit 428 - MH Medication Support which has approved appropriation for this service.

**Set Parameters to Guide FY 2024-25 Budget Preparation**

The Government Finance Officers Association (GFOA) recommends that governments should seek to replenish their fund balances within 1 to 3 years of use. The county has routinely budgeted to utilize General Fund balance year over year. Over the last several years, the budgeted General Fund deficit has grown and a larger reliance on fund balance has emerged. This is due to decreases in recurring, unrestricted revenue and increases in recurring expenditures.




GFOA further recommends an established policy for a balanced budget which defines parameters for use of fund balance. In the Boards' Balanced Budget Policy, it establishes that recurring expenses may not exceed recurring revenues and available fund balance shall be limited to one-time only expenditures (Attachment 4). Of the $10.9 million in Additional Requests for General Fund

Appropriation (ARGFA) submitted in FY 2023-24, your Board approved $9.3 million, of which $9.1 million were for ongoing county costs (Attachment 2). It is unlikely that revenues will recover to a point in which it will cover the structural budget deficit, so while staff will present options to utilize one-time revenues for the budget deficit, it is recommended that long-term cost reduction strategies are prioritized.

In order to continue to make progress on the budget deficit, staff have recommended a number of parameters to guide the FY 2024-25 budget development process.

## General Fund Allocations

In order to limit submissions of ARGFAs and to capture savings realized in FY 2023-24 due to the hiring freeze and VSIP, staff recommend setting General Fund allocations at FY 2023-24 levels with the addition of approved, ongoing ARGFAs, less a 20% reduction. Of the departments that submitted ARGFAs, only the Auditor-Controller and Planning & Building participated in the VSIP program, therefore, their savings are beyond the 20% and that reduction to their ARGFA amount will not be applied. As salaries are projected to be stable in the General Fund, it is expected that will produce $2.7 million in savings over the prior year. It should be noted that Probation, CAO, and DHHS also participated in the VSIP and did not have ARGFAs and therefore are not represented here but will produce savings for the county. This method will allow the county to slowly continue to reduce the ongoing budget deficit while allowing departments to more flexibly budget.

**FY 2024-25 Preliminary Estimated General Fund Contribution Increase By Department**

| Budget Unit | Budget Name | FY 2023-24 Ongoing ARGFA | 20% Reduction | VSIP Savings | Increase to Contribution |
|---|---|---|---|---|---|
| 101 | Board of Supervisors | 173,587 | (34,717) | | 138,870 |
| 111 | Auditor Controller | 345,729 | | (133,999) | 211,730 |
| 113 | Assessor | 204,260 | (40,852) | | 163,408 |
| 130 | Personnel | 121,262 | (24,252) | | 97,010 |
| 140 | Elections | 154,833 | (30,967) | | 123,866 |
| 219 | Public Defender | 444,587 | (88,917) | | 355,670 |
| 221 | Sheriff | 4,126,195 | (825,239) | | 3,300,956 |
| 243 | Jail | 704,057 | (140,811) | | 563,246 |
| 246 | Conflict Counsel | 224,147 | (44,829) | | 179,318 |
| 262 | Building Inspector | 730,581 | | (93,337) | 637,244 |
| 269 | Code Enforcement | 346,537 | | (213,138) | 133,399 |
| 271 | Recorder | 300,000 | (60,000) | | 240,000 |
| 277 | Planning | 939,871 | | (463,103) | 476,768 |
| 282 | Advanced Planning | 283,915 | (56,783) | | 227,132 |
| 632 | Coop Extension | 59,562 | (11,912) | | 47,650 |
| | **Total** | **9,159,123** | **(1,359,281)** | **(903,577)** | **6,896,265** |

## Contributions to Other Funds

Staff recommend evaluating the ongoing contributions to other funds in the coming year. These contributions include funds for Economic Development, DHHS, Library, Public Works - Natural

Resources, and other outside agencies. In FY 2023-24, the total budgeted contributions from this budget were $8.1 million. Many of these contributions are statutorily or contractually required, however, a comprehensive review to consider reductions in this budget is warranted.

**Deallocate FY 2024-25 Unbudgeted General Fund Positions**

As discussed last year, departments have utilized vacancies to balance their budgets in recent years. This has resulted in having substantial unbudgeted positions year after year. This is problematic for tracking and prevents a comprehensive review of salary and benefits in terms of the budget. In prior tight budget times, a method of freezing positions was offered. This is not recommended as it effectively is the same as deallocating in that departments must return to your board for allocation, and it is time-consuming for staff to track. This does not have an immediate budget impact but would allow for resetting General Fund allocations in future years.

**Additional Request for General Fund Appropriations**

As described above, recurring revenues and expenditures should be balanced. Due to the use of General Fund balance to close the budget deficit without additional allocations, it is recommended that ARGFAs are only accepted for consideration for one-time expenditures.

**PARS**

On Sept. 15, 2015, your Board approved a Public Agency Retirement Services (PARS) Pension Rate Stabilization Program (PRSP) in order to begin addressing the mounting unfunded liability. Contributions to PARS will help to stabilize the contribution rates set by PERS. As the balance in the PARS trust grows and produces investment returns, those funds can be utilized to reduce the contribution rate increases, thereby reducing the effect of the contribution rate increase on the county and potentially preventing service reductions or if sufficient funds are available for contribution increases, they can be utilized to pay down the Unfunded Accrued Liability (UAL). The FY 2023-24 budget incorporated an annual departmental contribution to PARS equal to 2% of salaries totaling $3.1 million for all county departments. To date the county has contributed $7.4 million to the PARS trust and as of the December Statement, the trust has a balance of $10.1 million, earning $2.7 million since the establishment of the trust and earning impressive returns. Through the Board's adopted Pension Funding Policy, the county has implemented a long-term funding strategy for pensions with an emphasis on financial sustainability. Allowing the PARS trust to continue to grow, takes a proactive approach to preserve the county's funding of pensions in the long run.

**Deferred Maintenance**

In line with last year's recommendations, staff expect a deferred maintenance contribution is not critical at this time. As of June 30, 2023, the deferred maintenance fund had a balance of nearly $6.0 million. CAO and Public Works staff have implemented quarterly meetings to review projects, identify opportunities to utilize deferred maintenance funds, and work on a deferred maintenance plan. Given this balance and the ongoing work, this is an opportunity to produce additional savings for the General Fund in the upcoming year.

**Tax Loss Reserve**

A Teeter plan requires counties to have 1% of all property taxes and assessments levied (Revenue and

Taxation code 4703(a)) placed in a tax loss reserve fund, or Teeter fund. Any dollar amount over the 1% requirement can be credited to the county General Fund. For FY 2023-24, your Board approved transferring $2.5 million to the General Fund from the Tax Loss Reserve fund, this is a larger amount due to build-up of fund balance. Based on the current estimated additional fund balance and financial conditions, it is recommended that $2 million be transferred to the General Fund for FY 2024-25 if the minimum reserve is maintained.

**General Reserve**

The General Reserve policy has set a target funding level of 10% of the county's total General Fund expenditures, as averaged by the current and prior year adopted budgets with a goal of reaching the Government Finance Officers Association (GFOA) recommended level of 16%. For this current budget cycle, this target funding level is $17.4 million. The current balance of the General Reserve is $10.5 million which is below the target policy level. The policy also gives the authority to the Board and the CAO to prohibit such a transfer if financial constraints are present. It is critical that the county prioritize fiscal sustainability including building reserves to fiscally prudent levels.

**ARPA**

As previously mentioned, in FY 2024-25, ARPA funds available for ongoing costs are anticipated to be mostly exhausted. Should any ARPA funds remain for FY 2024-25, it is recommended that it be applied to the ongoing costs funded by ARPA in FY 2023-24.

**Budget Deficit**

In the coming year, the focus must remain on finding long-term solutions to the budget deficit. For this reason, staff recommend your Board provide additional direction to staff to pursue savings solutions including reorganization and program reduction opportunities. These processes would be a better fit outside of the budget process to ensure proper engagement to develop solutions that provide the most cost savings while improving services based on the priorities of your Board.

**Section 4: Budget & Fee Update Calendar**

The proposed calendar for county budget development (Attachment 3) provides for final adoption of the budget on June 25, 2024. The intent is to allow for adoption of the budget before the beginning of the next fiscal year.

The calendar for FY 2024-25 includes Measure Z Citizen's Advisory Committee Meetings for consideration of FY 2024-25 Measure Z applications.

FINANCIAL IMPACT:

The financial impact of past, present and future actions or decisions are the topic of this staff report and presented throughout the report.

STAFFING IMPACT:

All position and benefit funding decisions impact the budget and are therefore addressed throughout this staff report and are integral to the budget and fiscal management of the county.

STRATEGIC FRAMEWORK:
This action supports the following areas of your Board's Strategic Framework.

Core Roles: N/A
New Initiatives: Manage our resources to ensure sustainability of services
Strategic Plan: N/A

OTHER AGENCY INVOLVEMENT:
None

ALTERNATIVES TO STAFF RECOMMENDATIONS:
Board discretion.

ATTACHMENTS:
1. FY 2023-24 Mid-Year Budget Adjustments
2. FY 2023-24 Board Approved ARGFA
3. FY 2024-25 Budget Calendar with Measure Z
4. Balanced Budget Policy

PREVIOUS ACTION/REFERRAL:
Board Order No.: N/A
Meeting of: 12/19/2023, 10/24/2023, 10/3/2023, 9/26/2023
File No.: 23-1444, 23-1374, 23-1341, 23-1253