



COUNTY OF HUMBOLDT

For the meeting of: 6/3/2025

File #: 25-665

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

Vote Requirement: Majority

SUBJECT:

Proposed Fiscal Year (FY) 2025-26 Budget

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive and review Humboldt County's Proposed FY 2025-26 Budget; and
2. Approve the Proposed FY 2025-26 appropriations subject to modifications and staff direction for adoption of the final budget on June 24, 2025; and
3. Adopt a Resolution authorizing an Inter-Fund Loan for Forest Resources and Recreation Fund (1710); and
4. Approve the transfer of \$2 million in FY 2025-26 from the Tax Loss Reserve Fund (3010) to the General Fund provided the required balance is met; and
5. Provide staff direction in consideration of an FY 2025-26 hiring freeze; and
6. Provide staff direction on administrative staffing allocations for Measure O; and
7. Approve the prepayment of the FY 2025-26 CalPERS Unfunded Accrued Liability (UAL) contribution in the amount of \$36,785,235; and
8. Authorize department heads to continue to approve voluntary unpaid furloughs for employees under their appointment authority for FY 2025-26; and
9. Direct the Auditor-Controller to close Department of Health and Human Services (DHHS) Fund 1190 - Employment and Training and move any remaining transactions to Fund 1160 - Social Services Administration beginning FY 2025-26; and
10. Authorize the Auditor-Controller to close funds, without an associated legal mandate, at the request of the managing department and approval of the County Administrative Office and transfer the funds to the appropriate budgeted fund; and
11. Direct the County Administrative Officer to return to your Board on June 24, 2025, to consider the adoption of the Final Budget for FY 2025-26; and
12. Take other action as appropriate.

STRATEGIC PLAN:

This action supports the following areas of your Board's Strategic Plan.

Area of Focus: Core Services/Other

Strategic Plan Category: 9999 - Core Services/Other

DISCUSSION:

California Government Code Sections 29000 through 30200, known as The County Budget Act, as applied through rules issued by the Office of the State Controller, provide the legal requirements pertaining to the content of the proposed budget, adoption procedures

and dates by which action must be taken.

This report has been divided into three key sections:

1. An overview of the state and federal economic conditions impacting the county in the coming year;
2. A review of the FY 2025-26 Proposed Budget, funds with negative fund balances, and major revenue sources for consideration; and
3. Policy decisions for your Board to consider in evaluating the county's current and projected financial conditions.

Section 1: Economic Outlook

Responsive Budgeting

The FY 2025-26 Proposed Budget presented to your Board represents the most informed projection possible amid significant uncertainty in state and federal budgets. While this budget optimistically assumes the county will be able to maintain most state and federally funded programs, staff anticipate the potential for significant budget adjustments and difficult decisions at First Quarter and Mid-Year, depending on the outcomes of the state and federal budgets.

Federal Budget

Federal spending reductions have already had a direct impact on the county. The DHHS - Public Health has lost funding for seven extra-help positions that supported communicable disease investigation and vaccination efforts. In addition, anticipated infrastructure funding for the new Public Health Laboratory has been withdrawn, jeopardizing a critical investment in the county's Public Health infrastructure, and straining local resources.

While it is anticipated that the full federal budget will not be clear until the end of 2025, the budget reconciliation bill, known as President Trump's "One Big Beautiful Bill Act," passed by the House on May 22 by a narrow margin, combines tax cuts with social program reductions and increased defense and immigration spending. The bill is now with the Senate which returns to session beginning on June 2. The Congressional Budget Office (CBO) estimates that the bill could add approximately \$3.3 trillion to the national debt over the next decade, potentially increasing the debt-to-Gross Domestic Product (GDP) ratio from 98% to 125% and Moody's has downgraded the United States credit outlook, citing fiscal sustainability concerns.

State Budget

The Governor's May Revision addresses a projected \$12 billion deficit through a combination of spending cuts, reserve withdrawals and policy adjustments. The Governor's revised budget attributes this budget shortfall to increased healthcare costs, wildfire-related expenses and reduced capital gains tax revenues. The state will rely on the reserves to mitigate these impacts of this budget deficit drawing \$7 billion from reserves, including the Budget Stabilization Account.

The May Revision includes many impactful expenditure cuts including freezing full-scope Medi-Cal coverage for undocumented adults starting in 2026 and elimination of the Homeless Housing, Assistance and Prevention (HHAP) in FY 2025-26. These cuts could create strain on local health systems and significantly reduce funding for the county DHHS.

State and National Economy

As described in the Financial Forecast brought before your Board in May, the CBO projects national GDP growth will decline from 2.3% to 1.9%, with a long-term average of 1.8%. Prior to considering the budget reconciliation bill, the federal deficit was expected to grow, reaching an estimated \$1.9 trillion in Federal Fiscal Year (FFY) 2025, though remaining stable as a share of GDP. This is an improvement in the projection from the prior year with a reduction in the projected debt and deficit. Overall, the CBO predicts a slowdown in population and economic growth due to reductions in private investment, consumer spending and downsizing of the labor force.

In California, economic activity remains generally aligned with national trends. The unemployment rate rose to 5.4%, the second highest in the nation, in part due to job losses following minimum wage increases. The state is facing structural budget deficits over \$10 billion annually. Reserves are beginning to shrink, making future spending cuts or revenue increases likely.

Local Economy

Uncertainty at both the state and federal levels continue to make it challenging to accurately forecast the county's economic outlook and its implications for the budget. For over a decade, HdL Companies has provided the county with reliable sales tax projections.

For FY 2025-26, HdL anticipates a (2.2%) decline in Bradley-Burns sales tax, an (0.8%) decrease in Measure Z Local sales and a modest 1.9% increase in Proposition 172 Public Safety sales tax. Sector-specific challenges remain, particularly in the garden and agriculture industries, which continue to be affected by the ongoing downturn in the cannabis market. In addition, fuel-related revenues have declined, correlating with reduced gas prices over the past year.

As outlined in the March 2025 Humboldt Economic Index (included with the Financial Forecast), there are signs of modest economic recovery. Median home prices rose to \$430,000, marking a 12.1% increase over the prior year. Retail sales showed a 1.9% monthly gain in March but remain 1.4% lower year-over-year and the unemployment rate improved slightly, decreasing to 4.7% from 5.0%. Despite these positive signals, overall year-over-year growth remains soft, particularly in retail. The local economy is showing signs of gradual improvement in housing and employment, but the broader fiscal outlook continues to require close monitoring and cautious financial planning.

Section 2: Fiscal Year (FY) 2025-26 Proposed Budget

FY 2025-26 Budget Timeline

- On Feb. 4, 2025, as part of the Mid-Year Budget Review, your Board set parameters for the development of the FY 2025-26 budget for General Fund allocations and the budget calendar. The parameters included direction to set departmental General Fund allocations as status quo to FY 2024-25 with adjustments to increase allocations to include the FY 2024-25 Board-approved additional requests for General Fund appropriation (ARGFA). In addition, your Board directed staff to deallocate FY 2025-26 unbudgeted positions, suspend ARGFA submissions, set departmental contributions to Public Agency Retirement Services (PARS) at 2% of annual salaries, include the annual contribution to the Deferred Maintenance Trust Fund (3464) at policy level and include a contribution of \$3 million to the General Reserve.
- Preparation of the proposed budget began on Feb. 27, 2025, when the County Administrative Office (CAO) staff presented to departments the parameters for development of the FY 2025-26 budget requests. Departments were asked to submit their requests to the CAO by April 7, 2025. CAO staff met with each department during this time. The CAO reviewed the budget from April through June 2025.
- On May 5-6, 2025, optional department budget presentations to your Board were held and the CAO presented a 5-year financial forecast for the General Fund and an update on Strategic Plan progress.
- Presentation of the proposed budget is before your Board today.
- Public Hearings on the proposed budget are scheduled to be held on June 9, 2025.
- The final budget is anticipated to be adopted on June 24, 2025.

FY 2025-26 Budget

Today, the total proposed budget (or spending plan) before your Board for FY 2025-26 is \$629,738,053 (excluding internal service funds and enterprise funds). The total proposed budget represents an increase of \$21,489,698 in expenditures, or 3.5% more than the budget your Board adopted for FY 2024-25. This number is higher due to the addition of anticipated Measure O Roads and Transportation sales tax expenditures, budgeted at \$27 million and a one-time labor negotiations contingency of \$5 million offset by overall budget reduction efforts in many departments.

General Fund-1100

The FY 2025-26 budget proposes that your Board allocate \$157,889,033 in General Fund expenditures, which is a decrease of \$8,904,488, or (5.3%), from the prior year. In FY 2025-26, two changes in local accounting practices are impacting the General Fund (1100) including moving Measure Z to a separate fund (1103) and moving Probation Realignment expenditures previously budgeted in fund 3741 back to the General Fund. Taking these changes into account, the total adopted General Fund expenditures for FY 2024-25 were \$151,191,290, resulting in an increase in FY 2025-26 of \$6,697,743, or 4.4% over the prior year.

Despite the increase described above in General Fund expenditures, your Board and county departments have worked to reduce expenditures and the increase does not accurately reflect that work. Of the total expenditures, \$5 million is a one-time contingency for labor negotiations, \$3 million is a contribution to the General Reserve and \$749,942 is a contribution to Deferred Maintenance.

The contributions to the General Reserve and Deferred Maintenance are important steps toward fiscal sustainability. General Fund wages and benefits decreased by an overall (\$8,041,840) or (8.4%) due to the accounting changes previously described. Taking those changes into account, General Fund wages and benefits increased \$617,469, or 0.7% over the prior year. Wages and benefits make up the same percent of the General Fund expenditure budget as the prior year at 57% of total expenditures.

In the General Fund, projected revenues for FY 2025-26 are \$137,136,855, which is a decrease of (\$4,541,155) or (3.2%) from FY 2024-25. Considering the movement of Measure Z and Probation Realignment, General Fund revenue is increasing by \$6,048,483 or 4.6%. Discretionary General Fund revenue is anticipated to increase \$2,160,250 over the FY 2024-25 budget due to increases in anticipated property taxes and interest revenue. To present a balanced budget, the current budget proposes the use of \$20,752,178 of fund balance from the General Fund, of which \$8,749,942 is due to the one-time labor negotiations contingency and contributions to the General Reserve and Deferred Maintenance. The FY 2024-25 recommended use fund balance, less those contributions, is \$12,002,236, a reduction in fund balance use from the FY 2024-25 adopted budget of (\$3,079,233) or (20.4%). While this budget deficit can be funded with fund balance in FY 2025-26 and shows continued progress toward a budget balanced with current year revenues, it will be unsustainable ongoing. In future years, the county will need to both increase revenue and decrease expenditures.

Should revenues and expenditures come in as budgeted in the coming year, it is anticipated that the General Fund will end FY 2025-26 with \$7.1 million. This is an improvement over the mid-year projection of \$6.7 million. This positive news is primarily due to:

- \$2.7 million in Cost Allocation Plan charges based on the draft FY 2024-25 Cost Allocation Plan which was not available at the time of the mid-year budget update. Cost Allocation Plan charges are charges to departments for central services including County Counsel, Treasurer-Tax Collector, CAO, Auditor-Controller, Human Resources, Public Work's Facilities, Building Depreciation and Equipment Depreciation (one-time).
- \$750,000 in additional anticipated interest apportionment revenue.
- \$700,000 in additional Property Tax In Lieu payments from the state.
- \$300,000 in additional anticipated Cannabis Excise Taxes (one-time).
- \$770,000 in anticipated expenditure savings in Public Work's Facilities, primarily in salaries and benefits.
- \$570,000 in anticipated expenditure savings in Probation, primarily in salaries and benefits.
- \$910,000 in anticipated expenditure savings by all other county departments.

Estimated Fund Balance 1100 - General Fund	
FY 2024-25 Estimated Beginning Fund Balance	43,788,463
Estimated Revenues	146,670,716
Estimated Expenditures	160,067,214
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(13,396,497)
FY 2024-25 Estimated Ending Fund Balance	30,391,966
Estimated Measure Z Ending Fund Balance	(2,569,320)
FY 2024-25 Estimated Ending Available Fund Balance	27,822,646
Estimated Revenues	137,136,855
Estimated Expenditures	157,889,033
Estimated Use of Fund Balance	(20,752,178)
FY 2025-26 Estimated Ending Fund Balance	7,070,468

Your Board directed the CAO not to accept any additional requests for General Fund appropriation (ARGFA) for the current budget cycle, therefore, none are presented for your review. Departments worked diligently to develop budget submissions that aligned with your Board's General Fund allocation targets. They met your Board's request by prioritizing needs and managing their resources to operate within their allocations reflecting commitment to fiscal responsibility. This work to reduce expenditures will continue to put pressure on departments' ability to make future cuts without program or service reductions. The McKinleyville Municipal Advisory Committee (MMAC) has submitted a request (Attachment 2). This is not included in the FY 2025-26 Proposed Budget in accordance with your Board's direction.

Public Works General Fund Overage

One department submitted three budgets over their General Fund allocation: Public Works Land Use (1100-166), Public Works County Surveyor (1100-168) and Public Works Veterans Buildings (1100-703). In each of the last three budget years, the Public Works Facility Management budget (1100-162) has underspent the General Fund allocation by more than \$700,000 annually. For this reason, the CAO recommendation is to utilize General Fund allocation from the Facility Management budget to cover the overages in the other Public Works budget units. The proposed budget before your Board includes the following adjustment, a reduction in the Public Works Facility Management budget by (\$88,494).

Public Works General Fund Allocation			
Budget	Allocated	Department Submitted	CAO Proposed
1100-166 Public Works Land Use	\$ 375,574	\$ 409,010	\$ 409,010
1100-168 Public Works County Surveyor	\$ 189,781	\$ 250,776	\$ 250,776
1100-703 Public Works Veterans Buildings	\$ 79,185	\$ 109,998	\$ 109,998
1100-162 Public Works Facilities	\$ 3,393,802	\$ 3,357,052	\$ 3,268,558
Total	\$ 4,038,342	\$ 4,126,836	\$ 4,038,342

General Fund Reserve

In FY 2024-25 at the First Quarter budget update, due to additional one-time discretionary funding availability, your Board approved a contribution of \$3 million to the General Reserve. At the mid-year budget update, as part of the FY 2025-26 budget preparation, your Board directed staff to include another \$3 million contribution in FY 2025-26. The Proposed Budget before your Board includes this contribution.

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 budget cycle, this target funding level is \$15.5 million with the GFOA recommendation at \$24.7 million. The current

balance of the General Reserve is \$13.6 million which is below the target policy level, however, with the Board-directed contribution of \$3 million in FY 2025-26, your Board will bring the General Reserve balance to \$16.6 million, just over the minimum target balance, but still short of the GFOA recommended goal. This is an important step in building fiscal sustainability for the county to weather future emergencies and your Board should be commended for prioritizing these investments, even during difficult budget times.

Negative Fund Balances

Negative fund balances in other funds are a threat to the General Fund and negatively impact the county's cash flow and the interest earned by the General Fund. It is important the entire agency implement prudent fiscal practices to correct and prevent funds from having negative fund balances.

Social Services-1160

DHHS-Social Services is primarily funded by state and federal funding sources in which staff claim their costs for reimbursement on a quarterly basis. As reported over the last two years, DHHS-Social Services fund 1160 is negative. The department anticipates ending FY 2024-25 with a negative fund balance of (\$11,200,695), an improvement of \$1.9 million, or 14.4% over the prior year. As reported at mid-year DHHS staff have implemented strategies to reduce expenditures and save discretionary revenue in order to remedy the negative fund balance. Some of these strategies included expenditure reductions to outside agencies, reductions in vacant positions and reorganization of internal administrative staffing. After reductions, DHHS is budgeting to contribute \$1.6 million to the 1160 fund balance in FY 2025-26, reducing the negative fund balance (\$9.6 million) by the end of the fiscal year, a 14.1% improvement in fund balance.

Estimated Fund Balance 1160 - Social Services Administration	
FY 2024-25 Estimated Beginning Fund Balance	(13,077,723)
Estimated Revenues	130,547,010
Estimated Expenditures	128,669,982
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	1,877,028
FY 2024-25 Estimated Ending Fund Balance	(11,200,695)
Estimated Revenues	127,811,941
Estimated Expenditures	126,234,638
Estimated Use of Fund Balance	1,577,303
FY 2025-26 Estimated Ending Fund Balance	(9,623,392)

Behavioral Health-1170

DHHS-Behavioral Health reports no change to the estimates reported at the mid-year budget update, resulting in the Behavioral Health fund ending FY 2024-25 with a (\$26.3 million) negative fund balance. DHHS-Behavioral Health has been plagued by delays in the cost settlement process in which state and federal funding is received. In the prior year, payment reform was implemented in which payments are supposed to be processed much timelier, however, this took some time for the state to implement and payments were delayed.

DHHS-Behavioral Health staff have been working on an analysis of outstanding payments and fund balance impact which is not yet complete. Staff will report back at First Quarter or Mid-Year with the results and fund balance updates.

FY 2024-25 Estimated Fund Balance 1170 - Mental Health Fund	
FY 2024-25 Estimated Beginning Fund Balance	(26,045,664)
Estimated Revenues	69,420,893
Estimated Expenditures	69,694,763
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(273,870)
FY 2024-25 Estimated Ending Fund Balance	(26,319,534)
Estimated Revenues	72,584,465
Estimated Expenditures	72,584,465
Estimated Use of Fund Balance	-
FY 2025-26 Estimated Ending Fund Balance	(26,319,534)

Roads Fund-1200

The Roads fund is estimated to end FY 2024-25 with a negative fund balance of (\$4.2 million), a reduction in the negative fund balance of \$3.2 million primarily due to your Board's decision on April 22 to put \$3 million of the first three months of Measure O receipts toward the Roads fund negative fund balance. Public Works is presenting a balanced budget for FY 2025-26, which does not include a contribution from their Measure O allocation to the negative fund balance, therefore, the Roads fund is estimated to end FY 2025-26 with no additional progress in the negative fund balance.

Your Board directed staff that 50% of Measure O revenue above projections to be contributed to the Roads Fund negative fund balance until that balance is resolved. The first contribution from this process will take place in FY 2026-27.

Estimated Fund Balance 1200 - Roads	
FY 2024-25 Estimated Beginning Fund Balance	(7,410,965)
Estimated Revenues	45,416,999
Estimated Expenditures	45,210,131
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	3,206,868
FY 2024-25 Estimated Ending Fund Balance	(4,204,097)
Estimated Revenues	64,698,464
Estimated Expenditures	64,698,483
Estimated Use of Fund Balance	(19)
FY 2025-26 Estimated Ending Fund Balance	(4,204,116)

Natural Resources-1720

The Natural Resources fund in Public Works draws in millions of grant dollars every fiscal year. Annually, they receive a small General Fund contribution of \$20,000 for costs that cannot be claimed to grants. Over time, the Natural Resources fund balance has dipped into the negative with an anticipated negative fund balance of (\$584,070) at the end of FY 2024-25 and no anticipated progress to the fund balance in FY 2025-26. Public Work's Natural Resources staff have previously reported sufficient receivables to recoup this negative fund balance.

FY 2024-25 Estimated Fund Balance 1720 - Northcoast Resource Partnershi	
FY 2024-25 Estimated Beginning Fund Balance	(584,024)
Estimated Revenues	17,830,619
Estimated Expenditures	17,830,665
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(46)
FY 2024-25 Estimated Ending Fund Balance	(584,070)
Estimated Revenues	18,754,738
Estimated Expenditures	18,754,738
Estimated Use of Fund Balance	-
FY 2025-26 Estimated Ending Fund Balance	(584,070)

Aviation Enterprise Fund-3530

The Aviation Enterprise Fund is anticipated to fall negative during FY 2024-25. At the time of budget development, the fund balance for FY 2023-24 was \$970,864. Since then, additional adjustments have been entered through the course of closing prior years and audit adjustments causing that balance to dip to \$429,423. Aviation planned according to the prior posted balance and intended to use fund balance in the coming year. Given this, staff propose the budget as submitted by the department, will monitor closely and will bring budget adjustments at First Quarter or Mid-Year if necessary. Aviation staff report that parking lot revenue and fuel revenues are performing better than anticipated and will likely fill this anticipated budget gap.

FY 2024-25 Estimated Fund Balance 3530 - IGS-Airport Enterprise Fund	
FY 2024-25 Estimated Beginning Fund Balance	429,243
Estimated Revenues	5,030,597
Estimated Expenditures	5,558,799
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(528,202)
FY 2024-25 Estimated Ending Fund Balance	(98,959)
Estimated Revenues	5,217,294
Estimated Expenditures	5,432,161
Estimated Use of Fund Balance	(214,867)
FY 2025-26 Estimated Ending Fund Balance	(313,826)

Aviation Capital Projects-3539

As reported at the mid-year budget update, the Aviation Capital Projects Fund had gone negative with an estimated negative fund balance of (\$4.9 million) at the end of FY 2024-25 as a result of capital projects that are awaiting closeout or reimbursement from the Federal Aviation Administration.

FY 2024-25 Estimated Fund Balance 3539 - Aviation Capital Projects	
FY 2024-25 Estimated Beginning Fund Balance	(4,910,482)
Estimated Revenues	11,949,559
Estimated Expenditures	11,949,559
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	-
FY 2024-25 Estimated Ending Fund Balance	(4,910,482)
Estimated Revenues	3,869,270
Estimated Expenditures	3,869,270
Estimated Use of Fund Balance	-
FY 2025-26 Estimated Ending Fund Balance	(4,910,482)

Measure Z

On May 6, 2025, your Board reviewed the FY 2025-26 list of Measure Z applications as prioritized by the Measure Z Citizens' Advisory Committee (Attachment 5). The committee had \$1.3 million available to allocate in the FY 2025-26 process, \$800,000 of fund balance due to underspending by county departments and \$500,000 of anticipated additional revenues. The committee's recommendations funded the first four ranked projects, with a shortfall of \$39,794. The committee left it up to your Board how to distribute the shortfall in funding.

Your Board directed staff to fund the Public Work's Measure Z allocation of \$407,670 with Measure O Funds for FY 2025-26 and future years and re-allocated \$39,794 of those funds to cover the shortfall and accept the Committee's recommendation to fully fund the first four ranked projects. In addition, your Board added the City of Trinidad water infrastructure application at a reduced funding amount of \$40,000 from the Public Work's Measure Z allocation. Finally, the remaining Public Work's funds in the amount of \$327,876 were reallocated amongst the Sheriff, District Attorney, Probation and DHHS which all have static allocations in the three-year spending plan approved by your Board in FY 2023-24. The proposed budget reflects the committee's recommendations and your Board's direction will be incorporated into the adopted budget.

Your Board approved moving Measure Z funds to a separate fund (1103) in FY 2025-26 at the mid-year budget. This will increase efficiency and transparency in reporting. Staff are estimating \$13 million in revenues, though projections have been decreasing. Staff based budgeted revenue for sales tax on projections provided by HdL Companies. HdL has years of experience in preparing projections and have traditionally provided the county accurate sales tax projections. Total county obligations, including carryforward projects and the reserve account, are proposed at \$14,836,531.

Should revenues and expenditures come in as budgeted in the coming year, it is anticipated that Measure will end FY 2025-26 with \$732,789.

Estimated Fund Balance Measure Z	
FY 2024-25 Beginning Fund Balance	6,762,799
Estimated Revenues	12,900,000
Estimated Expenditures	17,093,479
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(4,193,479)
FY 2024-25 Estimated Ending Fund Balance	2,569,320
Estimated Revenues	13,000,000
Estimated Expenditures	14,836,531
Estimated Use of Fund Balance	(1,836,531)
FY 2025-26 Estimated Ending Fund Balance	732,789

Measure O

Measure O is a local one-cent sales tax for roads, transit and essential services, and applies throughout the county, including incorporated cities. It was passed by Humboldt County voters in November 2024 and became effective in April 2025. The measure was placed on the ballot as a continued outfall of the Education Revenue Augmentation Fund (ERAF) shift from the 1990's and corresponding decrease of more than \$500 million in local funding, increasing natural disasters impacting roads, and delayed and uncertain federal reimbursements for those disasters. These factors combined resulted in Humboldt County's 1,000+ mile road system being rated as "poor" in its pavement condition index report and on the verge of failing and put the Road Fund in a negative position of \$10 million at the time the measure was placed on the ballot (this has since improved to roughly negative \$4.2 million following the \$3 million contribution in FY 2024-25 Measure O revenue).

This revenue measure was passed at the same time as several other cities' measures and the county needed to have legislation passed, AB 1256 (2022), in order to allow the county's measure to exceed the 2% local limit imposed by state law. Combined with other taxes, each city's sales tax rate is at least 9.50% with Eureka and Arcata at 10.25%. The unincorporated area is at 8.75%. Annual revenue projections are \$24 million, which is double the amount of Measure Z, though the compounding impact of local taxes on actual sales activity, and therefore revenue projections are subject to change.

As a general tax, the Board has authority on how this funding should be allocated. Transit advocates heavily advocated for funding from this measure to offset emissions caused by vehicles. In February 2025 the Board appointed a "Funding Ad Hoc" to recommend how the funding should be allocated

between roads and transit for the following 5 years. After discussion, on April 22 your Board adopted a 5-year spending plan, assuming \$24 million in revenue each year, and allocating 85% of that revenue (or \$20.4 million) to Humboldt County Public Works for roads, and 15% (or \$3.6 million) to Humboldt Transit Authority for transit services annually. Half of excess revenue will go towards the negative balance in the Roads Fund until it is brought to a positive position, and half will go towards a contingencies account until reaching 16% of annual projected revenue, or \$3.8 million. After those benchmarks are hit, 85% of excess revenue will be allocated to roads and 15% will go towards transit. The Funding Ad Hoc will reconvene towards the end of the 5-year spending plan to recommend a future spending plan. In addition, your Board directed staff that the \$6 million in anticipated FY 2024-25 revenue be split with \$3 million going to the Road Fund negative fund balance and \$3 million added to the Public Work's allocation in the coming year. Fiscal Year 2025-26 allocations will be:

Measure O FY 2025-26	
Public Works Roads	\$ 23,400,000
Humboldt Transit Authority	\$ 3,600,000
Total	\$ 27,000,000

The Public Works Measure O budget was submitted with 7.0 FTE new position requests, including a Public Information Specialist. This position is limited by job description to the CAO. With that, the proposed budget differs from the department request such that the CAO has recommended an Administrative Analyst I/II for this position rather than a Public Information Specialist.

Position Allocations 342 Roads - Measure O			
Type/Classification/Title	FY 2025-26 Department Requested	FY 2025-26 Proposed	Change from Requested
FT 0195 Public Information Specialist	1.00	0.00	(1.00)
FT 0204 Road Maintenance Supervisor	1.00	1.00	0.00
FT 0230 Road Maintenance Worker III	3.00	3.00	0.00
FT 0302 Associate Engineer	2.00	2.00	0.00
FT 0626 Administrative Analyst I/II	0.00	1.00	1.00
Allocated Positions	7.00	7.00	0.00

American Rescue Plan Act

On Aug. 10, 2021, your Board approved a spending plan for the initial American Rescue Plan Act (ARPA) payment of \$13.16 million, which included funding for an economic impact grant program with priority areas of housing, childcare, and telehealth and broadband, DHHS General Relief Client debt forgiveness, and community requests as determined to be eligible. On Jan. 24, 2023, your Board opted to utilize \$1.5 million of ARPA funds, previously appropriated for broadband, as matching funds

for the Behavioral Health Continuum Infrastructure Program (BHCIP) grant application to fund building a Behavioral Health Crisis Triage Center. These matching funds were paid in FY 2024-25.

The final ARPA payment of an additional \$13.16 million arrived June 16, 2022, and your Board allocated those funds primarily in FY 2022-23 and the remainder in FY 2023-24. The county received a total of \$26.3 million in ARPA funds. All ARPA funds were required to be obligated by Dec. 31, 2024, and are required to be spent by Dec. 31, 2026. \$24.3 million in ARPA funds have been expended and it is estimated that an additional \$28,450 will be expended prior to the end of FY 2024-25, for a total of \$24.4 million expended of the original \$26.3 million. The remaining \$1.9 million has already been obligated by your Board by the obligation deadline to the following projects:

ARPA FY 2025-26	
HVAC for Information Technology Facility	\$ 85,000
Child Care Programming	\$ 242,825
Housing Trust Fund	\$ 1,500,000
Human Resources Staffing	\$ 142,421
Total	\$ 1,970,246

Local Assistance and Tribal Consistency Funds

The county was awarded \$3,196,536.10 in Local Assistance and Tribal Consistency Fund (LATCF) funds to be distributed in two separate tranches, one in FFY 2022 and one in FFY 2023. This program is intended as a general revenue enhancement program intended to augment or stabilize revenues. The county received the first tranche in October 2022 and the second tranche in December 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. Of the \$1 million, \$500,000 has been expended, \$118,103 is pending 100% reimbursement from the California Office of Emergency Services for sheltering, and \$250,000 remains obligated. While \$131,897 remains available for future earthquake response needs, if the full reimbursement is received, \$250,000 will be available for this purpose, unless your Board should choose to reallocate.

In addition to any remaining earthquake funds mentioned above, \$2,196,536 remains available and unobligated for your Board to allocate in FY 2025-26. Staff will seek further direction on the allocation of these funds from your Board through the Budget Hearings.

National Opioid Settlements Funds

In November 2022, the county began receiving the Opioid Settlement payments. For California, the Department of Health Care Services (DHCS) is monitoring expenditures of these funds and has established reporting and spending guidelines. Funds must be used for opioid abatement activities as defined by DHCS. The county has received \$3.6 million in payments through FY 2023-24. FY 2024-25

payments will trickle in for the next few months and are estimated at \$6.1 million. In FY 2024-25, your Board approved a budget utilizing \$1.9 million of these funds. These funds are subject to 15% backstop for state attorneys' fees, therefore, some of the payments received will be utilized for this purpose if the funds have not already been withheld. Staff have continued to work with the Opioid Workgroup including the Sheriff's Office, Probation, County Counsel, Public Defender and DHHS to consider how to allocate these funds. Based on this group's recommendations and in accordance with the requirements set forth by DHCS, the FY 2025-26 proposed budget reflects utilizing \$3.3 million in opioid settlement funds allocated to the following projects:

Opioid Settlement FY 2025-26	
DHHS - Behavioral Health	
Drug Medi-Cal Organized Delivery System PUPM Medi-Cal Match	\$ 200,000
Recovery Housing	\$ 127,500
SB43 Preparation	\$ 402,033
Warm Handoff Services	\$ 78,645
System Navigation Services	\$ 166,822
Administration of Opioid Settlement Funds	\$ 25,000
	\$ 1,000,000
DHHS - Public Health	
Harm Reduction Program: personnel, disposal from syringe kiosks	\$ 180,845
Youth Interventions School Outreach	\$ 100,000
Hepatitis C Virus Navigation and Care	\$ 175,871
Medication Assisted Treatment (MAT) Navigation and Care	\$ 201,011
Opioid Education and Coordination	\$ 214,665
	\$ 872,392
Sheriff	
Jail Medication Assisted Treatment (MAT) & Long-Acting Injectable	\$ 716,263
Opioid Problem-Oriented Policing Team	\$ 577,592
	\$ 1,293,855
Public Defender	
Deputy Public Defender - Opioid and Diversion	\$ 161,950
	\$ 161,950
Total	\$ 3,328,197

Measure S - Cannabis Excise Taxes

On Nov. 12, 2024, your Board approved the removal of the Consumer Price Index increase from the previously approved 10% assessment of the Measure S Cannabis Excise taxes for cultivation year 2024, to be collected in 2025. These tax bills went out in March, with first payments due in May and second payments due in October. Additionally, your Board approved the full suspension of Measure S taxes for cultivation year 2025/tax year 2026. Due to the assessment on cultivation year 2024 and

active payments plans, this could result in additional revenue in the FY 2024-25 or FY 2025-26 budgets; however, it is unknown how much will be collected, and refunds are still being processed. Due to the uncertain nature of this revenue stream, staff have not budgeted for it in the coming year. Any receipts of Cannabis Excise Taxes in FY 2025-26 will be available to fund FY 2026-27.

Transient Occupancy Tax

On April 22, 2025, staff requested direction from your Board on the allocation of Transient Occupancy Tax (TOT) funds including Measure J funds. In the prior year, your Board directed Economic Development staff to perform a marketing asset and inventory analysis, develop a marketing strategic framework, conduct an assessment of gateway communities and bring back funding recommendations. As this work is still underway, the CAO recommended a status quo budget for TOT funds to maintain funding for Economic Development to complete this work, the gateway communities, Aviation destination marketing and airline recruitment, Local Housing Trust Fund Contribution, the Film Commission and Ink People. Your Board accepted the CAO's recommendations, only adding \$50,000 for Project Trellis administration funding and electing not to budget a reserve in order to utilize those funds to maintain existing county services.

Pursuant to the Film Commission's current contract, the allocation for their funding is based on a percentage of FY 2023-24 TOT collections which were higher than normal due to local accounting changes accruing back revenues received in FY 2024-25.

TOT FY 2025-26			
	Base TOT	Measure J	Total TOT
Gateway Communities:			
So Hum Visitors Bureau	\$ 71,079		\$ 71,079
Garberville Chamber	\$ 130,786		\$ 130,786
Orick Chamber	\$ 34,118		\$ 34,118
Willow Creek Chamber	\$ 34,118		\$ 34,118
Arcata Chamber	\$ 28,432		\$ 28,432
McKinleyville Chamber		\$ 25,000	\$ 25,000
Loleta Chamber		\$ 10,000	\$ 10,000
RREEL (Film Commission)	\$ 290,484	\$ 30,000	\$ 320,484
Economic Development	\$ 341,179	\$ 25,000	\$ 366,179
Economic Development Project Trellis		\$ 50,000	\$ 50,000
Ink People		\$ 150,000	\$ 150,000
Aviation		\$ 45,000	\$ 45,000
Local Housing Trust Fund		\$ 100,000	\$ 100,000
Total	\$ 930,196	\$ 435,000	\$ 1,365,196

Section 3: Policy Decisions for FY 2025-26

Recommendation 3: Inter-Fund Loans

An inter-fund loan is necessary for the Forest Resources and Recreation Fund as it is anticipated the costs for infrastructure and operations of the McKay Community Forest will exceed available revenues. The resolution (Attachment 1) before your Board today authorizes the General Fund to loan \$260,243 to the Forest Resources and Recreation Fund against the expected payment from future timber harvests. If approved, the total loan amount from the General Fund for the McKay Community Forest will be \$1,890,076.

Recommendation 4: Transfer from Tax Loss Reserve Fund

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. For Humboldt County this means the county's tax loss reserve fund should be approximately \$2 million. Any dollar amount over the 1% requirement can be credited to the county General Fund. For FY 2024-25 your Board approved transferring \$2 million to the General Fund from the Tax Loss Reserve fund. The county's tax loss reserve fund (3010) is estimated to have a balance of \$4.8 million at the end of the current fiscal year, with an additional \$2.0 million in revenue anticipated for FY 2025-26. An estimated \$2 million can typically be transferred to the General Fund on an on-going basis depending on economic conditions. 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 2025-26.

Recommendation 5: Hiring Freeze

In FY 2024-25, your Board approved a hiring freeze on departments that received an approved ARGFA and those with negative fund balances. Additionally, your Board approved a list of positions as exceptions to the hiring freeze as submitted by impacted departments at Budget Hearings. Throughout FY 2024-25, departments have brought several agenda items to request additional exceptions to the hiring freeze. Your Board has approved every exception requested. Due to the added administrative workload for impacted departments, the CAO and the Clerk of the Board, staff seek direction from your Board on an FY 2025-26 hiring freeze.

Recommendation 6: Measure O Staffing Allocations

With the implementation of Measure O, there are anticipated impacts on central service departments which may require additional staffing allocations, particularly in the Auditor-Controller, County Counsel, CAO and Purchasing. Staff recommend the following staffing allocations for your Board's consideration:

1100-111 Auditor Controller

1.0 FTE Senior Fiscal Assistant

1100-121 County Counsel

1.0 FTE Deputy County Counsel I-IV

1100-103 CAO Management & Budget Team

1.0 FTE Administrative Analyst I/II

3555-115 Purchasing

1.0 FTE Buyer I/II

Previously, the Board allocated an Administrative Analyst I/II to the CAO for Measure Z due to the administrative workload associated with managing that measure. Ultimately, the Board removed that staffing allocation in the implementation of the 3-year spending plan in order to reduce the percentage of Measure Z going to the county. Should your Board approve a staffing allocation for FY 2025-26, this position could be shared between Measure Z and Measure O.

Any staffing allocations to central service departments that are in Cost Allocation Plan will be billed through that mechanism, which is two years in arrears. Should your Board choose to fund staffing allocations, the General Fund allocations in those departments would need to be increased, in which costs will be recouped from Measure O through the Cost Allocation Plan. The first charges for any new staffing allocations in those departments will not be charged to Measure O until FY 2027-28.

Recommendation 7: CalPERS UAL Prepayment

The California Public Employees' Retirement System (CalPERS), as the pension plan administrator of the County of Humboldt and other California government agencies pension plans, establishes actuarial assumptions for all pension plans under their administration. The actuarial reports for the County of Humboldt for FY 2025-26 are attached (Attachment 6 and 7). These reports determine the normal cost and the UAL cost that will be paid in the upcoming year.

Per the Pension Funding Policy, revised by the Board on April 20, 2021, should CalPERS provide an incentive or discount for prepayment of the minimum required contribution to remit payment in full at the beginning of the year as opposed to monthly payments, the CAO is directed to bring a financial analysis to your Board to consider each option. The savings offered in FY 2025-26 by CalPERS for prepayment is a total of \$1,230,130, or 3.2%.

Plan	Monthly Payment		Prepayment	Savings	
	Total				
Miscellaneous	\$ 29,340,940.00	\$	28,391,504.00	\$	949,436.00
Safety	\$ 8,674,425.00	\$	8,393,731.00	\$	280,694.00
Total	\$ 38,015,365.00	\$	36,785,235.00	\$	1,230,130.00

It has been the prior process of the county to remit prepayment, as such, the Treasurer-Tax Collector has anticipated this payment and ensured sufficient funds are available in the County Treasury. Based on an estimated 2.3% interest earning in the County Treasury, it is anticipated, if monthly payments of \$3,167,947 were made rather than prepayment, these funds could earn approximately \$439,215 in

the County Treasury during FY 2025-26:

Month	Prepayment		Estimated Interest Earned in
	Balance Less	Treasury	
	Monthly Payment		
July	\$ 36,785,235.00	\$	69,539.21
August	\$ 33,617,288.00	\$	63,550.49
September	\$ 30,449,341.00	\$	57,561.77
October	\$ 27,281,394.00	\$	51,573.05
November	\$ 24,113,447.00	\$	45,584.32
December	\$ 20,945,500.00	\$	39,595.60
January	\$ 17,777,553.00	\$	33,606.88
February	\$ 14,609,606.00	\$	27,618.16
March	\$ 11,441,659.00	\$	21,629.44
April	\$ 8,273,712.00	\$	15,640.72
May	\$ 5,105,765.00	\$	9,651.99
June	\$ 1,937,818.00	\$	3,663.27
Total		\$	439,214.90

Given that CalPERS typically earns a higher yield than the county's Treasury and considering the savings from the discount to the county is an additional \$790,915 above interest that could be earned on these funds, staff recommend remitting prepayment of the required UAL contribution for FY 2025-26.

Recommendation 8: Voluntary Furlough

Your Board approved the use of voluntary unpaid furloughs in FY 2024-25 as a mechanism to addressing potential financial impacts and budget reductions associated with the current economic downturn and the anticipated shortfall in the General Fund. As the county continues to navigate difficult economic conditions and expected shortfalls, staff recommend that your Board authorize Department Heads to approve voluntary unpaid furloughs for employees under their appointing authority for FY 2025-26, utilizing the attached form and calendar (Attachments 3 and 4).

Recommendation 9: Close Fund 1190 - Employment Training

In the FY 2025-26 Proposed budget, DHHS - Social Services has requested to move all staffing, revenues and expenditures for the Employment Training Division from fund 1190 to fund 1160. This leaves fund 1190 without any expenditures or purpose. Staff recommend your Board approve the closure of fund 1190.

Recommendation 10: Authorize the Auditor-Controller to Close Funds

At the mid-year budget update, your Board authorized the Auditor-Controller to close funds, without an associated legal mandate, that have not had activity, except interest apportionment, in the prior 3 years and transfer those funds to the appropriate budgeted fund. Staff recommend your Board

expand that to allow the managing department to request closure of funds that are no longer in use.

SOURCE OF FUNDING:

All county funds

FINANCIAL IMPACT:

Funding is as shown in the Humboldt County FY 2025-26 Proposed Budget document (Attachment 8). The total proposed county budget is \$629,738,052, proposed General Fund expenditures are \$157,889,033, including a contingency reserve of \$6,490,721, of which \$5,000,000 is designated for labor negotiations.

STAFFING IMPACT:

Staffing is as shown in the Humboldt County FY 2025-26 Proposed Budget document (Attachment 8). The total proposed county staffing allocation is 2,237.13 positions, a decrease of 108.60 positions over the FY 2024-25 adopted positions.

OTHER AGENCY INVOLVEMENT:

All county departments and agencies, as well as several community organizations that receive county funding, are affected.

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion.

ATTACHMENTS:

1. Resolution McKay Loan from General Fund FY 2025-26
2. MMAC FY 2025-26 Budget Request
3. Voluntary Furlough Form FY 2025-26
4. Voluntary Furlough Calendar FY 2025-26
5. Measure Z Final Rankings
6. Miscellaneous Plan Annual Valuation Report as of June 30, 2023
7. Safety Plan Annual Valuation Report as of June 30, 2023
8. Proposed Budget FY 2025-26

PREVIOUS ACTION/REFERRAL:

Meeting of: 6/4/2024, 4/22/2025, 4/22/2025, 4/22/2025

File No.: 24-902, 25-373, 25-498, 25-502