



COUNTY OF HUMBOLDT

For the meeting of: 12/16/2025

File #: 25-1334

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

Vote Requirement: 4/5th

SUBJECT:

First Quarter Fiscal Year 2025-26 Budget Update (4/5 Vote Required)

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive a review of the Fiscal Year (FY) 2024-25 estimated ending balances, first quarter results for FY 2025-26 and an initial projection of the budget condition for FY 2026-27; and
2. Approve the following recommendations to address the negative Fund Balance in Fund 1160:
 - a. Approve a hiring freeze on Fund 1160 and authorize the County Administrative Officer (CAO), or designee, to grant exceptions to the hiring freeze; and
 - b. Direct Department of Health and Human Services (DHHS) to submit quarterly financial reports to the CAO and the Auditor-Controller in a format determined by the CAO and Auditor-Controller; and
 - c. Direct DHHS to submit a report by the end of the fiscal year that details mandated programs and services and associated costs; and
 - d. Direct DHHS to bring back program prioritization and reduction recommendations with the FY 2026-27 annual budget cycle; and
3. Approve the list of budget adjustments shown on Attachment 1, and authorize the CAO to make any corrections necessary to effectuate the Board's direction (4/5 Vote Required); and
4. Provide additional direction to staff as appropriate.

STRATEGIC PLAN:

The recommended actions support the following areas of the Board of Supervisors' Strategic Plan:

Area of Focus: Core Services/Other

Strategic Plan Category: 9999 - Core Services/Other

DISCUSSION:

The CAO provides quarterly budget reports to keep your Board and the public informed on the status of the county's finances and other factors that may influence that status going forward. As the Auditor-Controller's Office is still working to complete the close of

FY 2024-25, there are transactions that could still be processed that will impact the fund balances provided in this report.

This report has been divided into three key sections:

1. An overview of the state and local economic conditions impacting the county;
2. A review of the FY 2024-25 year-end fund balances; and
3. An initial review of the FY 2025-26 budget results, recommended budget adjustments and a look ahead to the FY 2026-27 budget.

Economic Outlook

Federal - HR1

In July, Congress passed a major budget reconciliation package that includes large federal tax cuts, border-security spending, rollbacks of clean-energy initiatives and significant reductions to core safety-net programs.

The National Association of County Human Services Administrators (NACHSA) released a summary and timeline of the impacts of HR1 on social programs. Per the NACHSA timeline, starting in 2026-2028, states and counties face substantially greater administrative responsibilities and costs including increased Supplemental Nutrition Assistance Program (SNAP) administrative cost-sharing (state/county share rises to 75% from 50%), more frequent Medicaid redeterminations, new work requirements, reduced retroactive coverage and narrowed pathways for Medicaid eligibility.

These reductions will be impactful to community members and community service organizations, as well as they will affect the county's ability to deliver services, primarily in DHHS. As your Board will find in the remainder of this report, the county's DHHS funds are already in fiscal distress, likely to be exacerbated by the passage of HR1.

State Economy

At the state level, the Legislative Analyst's Office (LAO) projects that recent revenue increases are short-term and that the state is expected to face a budget shortfall in FY 2026-27. This budget shortfall is largely projected due to rising costs, primarily in healthcare and social services programs, likely to overtake any projected revenue increases. The county is expecting similar circumstances from the upcoming reductions as a result of federal action in HR1. Additionally, the LAO predicts ongoing state budget deficits slated to become structural in FY 2027-28, should no legislation changes occur.

Local Economy

Hdl Companies provides the county quarterly sales tax reporting. In April-June 2025, the county as a whole was down (2.1%) in adjusted sales tax and the unincorporated area of the county was down (3.4%) over the same period in the prior year. The Bradley Burns sales tax and Proposition 172 public safety sales tax continue to struggle in the county. In contrast to last year, Measure Z local sales tax, which has a different distribution methodology, was also down 2.4% over the prior year. Staff are still finalizing contracting with HdL for Measure O, the one cent roads and transit sales tax passed in 2024, projections and reporting and will report on that once received.

Most industry sectors struggled during the period. The biggest decline was in fuel and service station receipts and autos-transportation which fell 8.2% and 15.5% respectively. These declines are likely driven by reductions in fuel prices over the prior year, combined with increasing consumption of electric vehicles and sustained higher interest rates. While these industries struggled, restaurants and hotels saw an increase of 6%. Overall performance indicates softening economic conditions with households pulling back on discretionary purchases, prioritizing necessities under broader economic uncertainty.

Given the federal shutdown during Q4 of 2025, it is expected that economic conditions and sales tax receipts may be worse in the coming months.

Review of Year-End Fund Balances for FY 2024-25

As previously stated, in reviewing the estimated year-end fund balances, it should be noted that the Auditor-Controller's Office is still in the process of closing FY 2024-25, so while staff believe these numbers are reliable, there is still the possibility of additional transactions posting which could impact fund balances.

1100 - General Fund

The fund containing the majority of county programs is known as the General Fund, which is the source of discretionary funding derived from local revenue sources such as property tax and is available to be spent on local needs.

At the time of the FY 2025-26 Proposed Budget report, the FY 2024-25 year-end fund balance was projected to be \$27.8 million, utilizing \$16.0 million in General Fund balance for the year, of which \$2.7 million attributed to transferring the Measure Z balance out of the General Fund. The General Fund is now estimated to end last fiscal year with a fund balance of \$35.6 million, a \$7.7 million increase over the anticipated ending balance, less \$194,445 in carry forward, leaving \$35.4 million to fund FY 2025-26.

Estimated Fund Balance 1100 - General Fund			
	Estimated at the Proposed Budget	As of this report	Change
FY 2023-24 Ending Fund Balance	43,788,463	43,161,941	(626,522)
FY 2024-25 Estimated Use of Fund Balance	(13,396,497)	(2,575,450)	10,821,048
Less Measure Z Balance (transferred to fund 1103 as of this report)	(2,569,320)	(5,014,655)	(2,445,335)
FY 2024-25 Estimated Ending Fund Balance	27,822,646	35,571,836	7,749,191
Carryforward	-	(194,445)	(194,445)
Available balance to fund future years	27,822,646	35,377,391	7,554,746

This positive financial news from what was anticipated at the proposed budget is largely the result of the following:

- \$780,000 in unbudgeted cannabis excise taxes. (One-Time)
- \$1.1 million in unanticipated increased Transient Occupancy Taxes as a result of an accounting change in accruals in the prior year.
- \$1.1 million in unanticipated increases in other taxes including property tax and utilities, television, cable and radio franchise fees.
- \$959,270 in savings from unused General Fund Contingencies. (One-Time)
- \$312,270 million in additional Measure Z Revenue and Savings, \$2.3 million additional expenditure savings over what was anticipated at the proposed budget offset by \$1.9 million in requested carryforward. The Public Defender \$200,000 carryforward request was included in the proposed budget.

- \$649,000 in additional savings due to lower than anticipated General Relief assistance payments. (One-Time)
- \$2.7 million in additional revenue and expenditure savings in the Planning and Building department budgets. (One-Time)
- \$450,000 in combined expenditure savings across all other General Fund budget units. (One-Time)
- (\$505,000) in revenue shortage in the District Attorney budget 1100-205, resulting in additional use of the General Fund beyond the anticipated contribution. This revenue shortage was a result of anticipated budgeted fund balance in the District Attorney Asset Forfeiture fund which was not present at year-end. Due to this shortage, the FY 2025-26 budget is not anticipated to receive those revenues either, therefore, a budget adjustment to reduce the District Attorney budget is included with this report. Additionally, staff will implement measures to do more frequent reviews of the fund balances in other funds going forward to prevent this from occurring in the future.

This is positive news for the General Fund's ability to fund the current year and the upcoming FY 2026-27 budget. The county still faces an adopted structural budget deficit of \$12.0 million for FY 2025-26 but continues to make improvements on this deficit annually. Of the \$7.7 million in additional anticipated savings, \$5.3 million is one-time revenues and expenditure savings. The county will still need to work toward structurally balanced budgets in upcoming fiscal years.

The actions by your Board over the last several years and the sacrifices by county departments have improved the situation for the General Fund. It is critical for your Board and departments to keep this course until all county funds achieve fiscal sustainability.

Measure Z Fund

In the FY 2025-26 budget process, your Board approved the creation of the Measure Z fund to improve the tracking of Measure Z revenue and expenditures and make the process more efficient.

In FY 2024-25, Measure Z sales tax revenues were \$114,163 more than budgeted. Additionally, Measure Z funds had \$943,925 in expenditure savings in the county's Measure Z allocations and \$1.7 million in savings from outside agencies, for a total expenditure savings of \$2.6 million (\$300,000 in savings was anticipated at the proposed budget). The county department savings included:

- \$203,972 in Public Defender savings due to the delay of purchasing the E-Defender software;
- \$80,608 in DHHS salaries;

- \$1,903 in District Attorney Internal Service Fund and Cost Allocation Plan charges;
- \$114,965 in Probation salaries, services and supplies;
- \$124,821 in Sheriff Internal Service Fund and Cost Allocation Plan charges; and
- \$417,598 in Public Works salaries and fixed assets.

This \$2.6 million in expenditure savings includes carrying forward \$2.1 million in funds to FY 2025-26 allocated to the following:

- \$200,000 for E-Defender software for the Public Defender, this transaction was anticipated as carryforward in the FY 2025-26 budget;
- \$1.5 million for fire expenditures, most of which has been ordered but not received for the Humboldt County Fire Chief's Association (HCFA); and
- \$360,855 for Public Works for equipment that did not arrive prior to the end of the FY 2024-25.

During FY 2024-25, your Board elected to move Public Work's allocation expenditures to the newly passed Measure O Roads and Transit sales tax. In FY 2025-26, your Board allocated those funds to fire, City of Trinidad and to county departments that have set allocations in the three-year spending plan. For the upcoming FY 2026-27, your Board directed that those funds be included in the Measure Z application process.

Based on the savings and carryforward, it is anticipated there will be approximately \$1.5 million available to fund new applications in FY 2026-27 Measure Z application cycle.

FY 2026-27 Measure 7 Funding Source

FY 2026-27 Revenue above \$12.5M	\$	500,000
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FY 2024-25 Revenue above budget	\$	114,163
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FY 2024-25 Expenditure Savings	\$	2,607,749
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Less: Carryforward Requests	\$	(2,095,479)
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Public Works Allocation	\$	400,000
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	\$	912,270
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Potential amount available for the C make recommendations	\$	1,526,433
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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. 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.

Health & Human Services Funds

DHHS administered six budgetary funds in FY 2024-25. With the FY 2025-26 Proposed Budget, your Board approved the closure of Fund 1190, Employment and Training and to move remaining transactions to Fund 1160, Social Services Administration. All of the DHHS funds had combined expenditures and other financing uses of \$280.7 million and revenues and other financing sources of \$288.1 million for FY 2024-25. This resulted in an overall ending departmental fund balance deficit of (\$7.1 million), an improvement in negative fund balance by \$7.4 million from the previous fiscal year.

DHHS Fund Balance by Fund

Fund	FY 2023-24	FY 2024-25	Increase/(Decrease)
1110 \$	821,533 \$	(41,914) \$	(863,447)
1160 \$	(13,077,723) \$	(24,786,585) \$	(11,708,862)
1170 \$	(26,045,664) \$	(13,016,292) \$	13,029,372
1175 \$	19,329,378 \$	26,794,294 \$	7,464,916
1180 \$	4,402,606 \$	3,803,243 \$	(599,363)
1190 \$	(1,610) \$	111,129 \$	112,739
Total	\$ (14,571,480)	\$ (7,136,125)	\$ 7,435,355

DHHS reports that this deficit is offset by \$28.6 million in long-term receivables leaving a projected overall department-wide fund balance of positive \$21.5 million. Long-term receivables are still under review by the Auditor-Controller as of this report, therefore, these numbers may change. Until the last few years, DHHS has typically maintained a positive fund balance overall, despite challenges in receiving reimbursements for Behavioral Health services. As DHHS funds are general funds, this overall negative fund balance results in negative interest apportionment, in turn reducing the positive interest to the county General Fund. In FY 2024-25, the county General Fund lost \$664,863 in interest due to DHHS' negative fund balances. In addition, this places pressure on the General Fund's ability to finance future fiscal years with fund balance as collectively these funds must maintain an overall positive fund balance.

DHHS Interest FY 2024-25

1110 \$	(181,681)
1160 \$	(417,482)
1170 \$	(717,582)
1175 \$	526,969
1180 \$	108,761
1190 \$	(8,239)
Total	\$ (689,255)

Fund 1160, Social Services Administration ended FY 2024-25 with negative (\$24.8 million) in fund balance, an increase in the negative fund balance of (\$11.7 million) from the prior year. DHHS - Social Services (SS) is primarily funded by state and federal funding sources in which they claim their costs for reimbursement on a quarterly basis. They have the opportunity to submit a revised claim 12 months later. This revised claim allows them to capture costs that were not previously included in the original claim for a variety of reasons, but typically due to late posting of the expenditures. The delays in expenditure posting, especially indirect expenditures such as the Cost Allocation Plan (CAP) charges in FY 2024-25 delayed reimbursement as DHHS-SS was unable to claim many of these costs until their revised claim. DHHS-SS reports estimated long-term receivables of \$15.7 million for FY 2024-25 that

will be received in FY 2025-26 or beyond. Long-term receivables are still under review by the Auditor-Controller as of this report, therefore, these numbers may change. These receivables could reduce the estimated negative fund balance to (\$9.1 million).

Despite implementation of cost reduction measures and a hiring freeze in FY 2024-25, Fund 1160 went further negative at a substantial rate. Due to the near doubling of the negative fund balance, staff recommend your Board take action to improve fund management and establish a path to bring Fund 1160 back to the positive.

DHHS - Behavioral Health (BH) ended FY 2024-25 with a negative fund balance of (\$13.0 million), an improvement in the negative fund balance of \$13.0 million from the previous FY. DHHS-BH has been plagued with challenges in receiving reimbursements in a timely manner, due to the claims adjudication process. As of this report, these are caught up through FY 2018-19, with four years of receivables remaining.

In FY 2023-24, the California Department of Health Care Services took proactive measures to improve the cost settlement timeline, by instituting payment reform through Cal-AIM. As with all new processes, there were significant hiccups for the state and for the county which delayed reimbursement and resulted in a large negative fund balance in FY 2023-24. DHHS-BH began receiving those back payments in FY 2024-25 and made significant improvement in the negative fund balance. In addition, as a result of payment reform, DHHS-BH must keep funds in an account with the state as a match. In November 2025, \$3.1 million of DHHS-BH funds were in this account. As of FY 2024-25, DHHS-BH reported Fund 1170 long-term receivables total an estimated \$10.7 million. Long-term receivables are still under review by the Auditor-Controller as of this report, therefore, these numbers may change. These receivables, in combination with the funds in the state account, could resolve the negative fund balance in Fund 1170.

At the presentation of the FY 2024-25 First Quarter Budget Report, DHHS reported implementation of a number of cost reduction strategies in Funds 1160 and 1170 to reduce the negative fund balance. As of this report, the department estimates the following savings from those strategies:

DHHS Cost Reduction Strategies

Strategies	Reported at FY 2024-25 First Quarter Report	FY 2024/25 Actual Savings	FY 2025/26 Projected Savings
SSB - Hiring Freeze	\$ 3,500,000		
BH - Hiring Freeze	\$ 3,100,000	\$ 6,927,984	\$ 7,000,000
SSB - Expenditure reductions in Facilities and Information Services	\$ 965,000		
BH - Expenditure reductions in Facilities and Information Services	\$ 461,000	\$ 907,744	\$ 954,590
SSB - Changes to internal interdepartmental cost structures for claiming between branches	\$ 1,400,000	\$ 1,409,345	\$ 5,813,183
Total	\$ 9,426,000	\$ 9,245,073	\$ 13,767,773

While DHHS continues to work on implementation of additional cost reduction options and evaluating programs, staff recommend your Board take action to prevent Fund 1160 from falling further negative as detailed in the following recommendations section.

1120 - Economic Development Fund

Estimated Fund Balance 1120 - Economic Development Fund

FY 2023-24 Ending Fund Balance	1,155,810
FY 2024-25 Estimated Use of Fund Balance	(693,518)
FY 2024-25 Estimated Ending Fund Balance	462,292

The Economic Development fund ended FY 2024-25 with an estimated fund balance of \$462,292, a decrease of (\$693,518) over the prior year. Staff reported last year that it was anticipated that the Economic Development fund balance would be negative once all state obligations have been met for Project Trellis. Throughout FY 2024-25, staff took measures to reduce expenditures and ensure all grant claiming was submitted and fully drawn down. Additionally, the department left Economic Development Director position vacant for over a year to help correct the fund balance. Through that work, it is no longer anticipated that the Economic Development fund will go negative.

1200 - Roads Fund

Estimated Fund Balance
1200 - Roads Fund

FY 2023-24 Ending Fund Balance	(10,476,882)
FY 2024-25 Estimated Use of Fund Balance	(1,404,082)
FY 2024-25 Estimated Ending Fund Balance	(11,880,964)

The Roads fund ended FY 2024-25 with a negative fund balance of (\$11.9 million), an increase in negative fund balance of (\$1.4 million) from the prior year. With the passage of Measure O in November 2024, the Roads and 911 Emergency Response Measure, Public Works has been able to begin completing a backlog of road maintenance in FY 2025-26. Your Board dedicated \$3 million of the FY 2024-25 Measure O Revenue to the Roads negative fund balance. Those funds will be transferred in FY 2025-26 per your Board's direction, reducing the negative fund balance to (\$8.9 million). As of FY 2024-25, Public Works reported fund 1200 long-term receivables total an estimated \$1.8 million. Long-term receivables are still under review by the Auditor-Controller as of this report, therefore, these numbers may change. These receivables could reduce the estimated negative fund balance to (\$7.1 million).

Additionally, your Board dedicated half of Measure O revenues beyond projections to the Roads negative fund balance until that balance is returned to the positive. It is anticipated with the passage of Measure O that the negative fund balance will be corrected in a few years.

1500 - Library Fund

Estimated Fund Balance
1500 - Library Fund

FY 2023-24 Ending Fund Balance	967,467
FY 2024-25 Estimated Use of Fund Balance	(857,237)
FY 2024-25 Estimated Ending Fund Balance	110,230

The Library fund ended FY 2024-25 with a fund balance of \$110,230, a decrease of (\$857,237) from FY 2023-24. The FY 2024-25 budget reflected expenditures exceeding revenues by \$535,047, so this use of fund balance is more than \$300,000 more than anticipated. The increase in the use of fund balance is due to higher than anticipated use of extra help staffing costs. This unanticipated increase in use of fund balance has impacted the Library's ability to fund the FY 2025-26 budget year. For this reason, staff have included a budget adjustment with this report to reduce expenditures and recognize additional revenues to reduce the budgeted use of fund balance for the Library in FY 2025-26. In addition, the Library is exploring cost reduction options moving forward to ensure stability in the fund balance.

Aviation Funds

The Aviation Enterprise fund 3530 ended FY 2024-25 with an estimated negative fund balance of (\$28,863), a decrease of (\$458,105) over the prior year. The Aviation Capital Projects fund 3539 ended FY 2024-25 with an estimated negative fund balance of (\$6.9 million), an increase to the negative fund balance of (\$1.9 million). The combined negative fund balance is (\$6.9 million).

Aviation Fund Balance by Fund

Fund	FY 2023-24	FY 2024-25	Increase/(Decrease)
3530	\$ 429,243	\$ (28,863)	\$ (458,105)
3539	\$ (4,910,482)	\$ (6,858,341)	\$ (1,947,859)
Total	\$ (4,481,239)	\$ (6,887,204)	\$ (2,405,964)

As reported last year, the primary cause of the negative fund balance in fund 3539 is the timing difference between when expenditures are incurred and when reimbursements are received through Federal Aviation Administration (FAA) grant funding. Additionally, the department is required to cover upfront expenditures for the planning phases of certain projects, which must be completed before the FAA will issue grants to fund them. Furthermore, for certain FAA grants, project closeout thresholds must be met before the final reimbursement can be processed. For example, the ACV Runway project is currently nearing closeout, with several open grants that have covered expenses already paid but are still awaiting reimbursement.

As reported in last year's First Quarter Budget Report, Aviation is focusing on revenue-generation opportunities to resolve its negative fund balance. Some of these opportunities include:

- Aviation property development;
- Replacing parking lot pay booths with modern electronic payment and customer service communications systems which is anticipated to increase parking revenues by 200%;
- Continuing to review hangar license agreements and bring them up to the current, approved fee schedule rates;
- Reconciliation and future implementation of approved Passenger Facility Charge Program expected in FY 2026-27; and
- Exploring reductions in the overall number of airports.

Due to a full turnover of the administrative team over the last year, many of these opportunities have not been fully explored and implemented. In October 2025, the Aviation department brought on an

extra help staff member with expertise in Aviation contract negotiations and many new revenue generating contracts are in development. In addition, the expansion of air service expected in Spring 2026 is anticipated to increase parking lot and concessions revenues.

In coordination with the above, expenditure monitoring is ongoing. Aviation still expects to be on track with a focus on cost recovery to return to a positive fund balance in a couple of years provided that strategic decisions around revenue-generation continue to be implemented.

1720 - North Coast Resource Partnership Fund

Estimated Fund Balance 1720 - Natural Resources Fund	
FY 2023-24 Ending Fund Balance	(584,024)
FY 2024-25 Estimated Use of Fund Balance	(901,402)
FY 2024-25 Estimated Ending Fund Balance	(1,485,426)

The North Coast Resource Partnership fund ended FY 2024-25 with a negative fund balance of (\$1.5 million), an increase in the negative fund balance of (\$901,402) from the prior year. This is worse than anticipated at the proposed budget which anticipated no increase in negative fund balance. Last year, Public Works' Natural Resources reported that there has been an ongoing fund balance deficit in the amount of \$220,000 due to not achieving full expenditure reimbursement from grant sources for several years after fund creation. Since that time, staff have established an improved process for cost recovery. Public Works reported \$1.4 million in long-term receivables to the Auditor-Controller for FY 2024-25 for fund 1720. Once fully collected, those receivables would nearly resolve the negative fund balance. Long-term receivables are still under review by the Auditor-Controller as of this report, therefore, these numbers may change.

Internal Service Funds (ISF)

The county has 14 ISF's that provide for services to other county departments including: Motor Pool; Heavy Equipment; Risk Management; Communications; Purchasing; ADA and Information Technology. These funds ended FY 2024-25 with an estimated combined available fund balance of \$25.0 million, an increase of \$3.1 million from the previous year. The increase was due to the following changes in fund balance:

Internal Service Fund Balance by Fund

Fund	FY 2023-24	FY 2024-25	Increase/(Decrease)
3521-Communications	\$ 1,801,526	\$ 1,363,123	\$ (438,403)
3540-Heavy Equipment	\$ 1,878,651	\$ 3,777,805	\$ 1,899,154
3550-Information Technology	\$ 2,612,158	\$ 2,710,461	\$ 98,303
3555-Central Services ISF	\$ (82,554)	\$ 108,670	\$ 191,225
3500-Motor Pool	\$ 2,342,428	\$ 3,819,215	\$ 1,476,787
3526-Dental Plan	\$ 1,250,527	\$ 890,195	\$ (360,332)
3520-IGS County Insurance	\$ 177,962	\$ 274,060	\$ 96,098
3523-Workers Compensation	\$ 2,310,169	\$ 3,286,890	\$ 976,721
3524-Liability Insurance	\$ 3,328,952	\$ 2,855,379	\$ (473,572)
3525-Medical Plan	\$ 3,283,002	\$ 4,204,730	\$ 921,729
3527-Unemployment Insurance	\$ 18,424	\$ 13,961	\$ (4,463)
3528-Purchased Insurance Premiums	\$ 731,782	\$ 786,990	\$ 55,208
3522-Employee Benefits	\$ 196,900	\$ 139,756	\$ (57,145)
3552-ADA Compliance ISF	\$ 2,035,129	\$ 729,945	\$ (1,305,184)
Total	\$ 21,885,055	\$ 24,961,180	\$ 3,076,125

The Heavy Equipment and Motor Pool funds had large increases in available fund of \$1.9 million and \$1.5 million respectively. These increases are due to implementing an increase in charges to departments necessary to cover the increased costs of fuel and replacement.

The Purchasing fund or Central Services ISF has a negative fund balance of (\$82,554) at the end of FY 2023-24. This negative fund balance was due to larger than anticipated Cost Allocation Plan (CAP) charges in FY 2022-23 and FY 2023-24. The Purchasing fund, along with all other ISFs, implemented a process to reconcile charges in order to maintain sufficient fund balances that are not over- or under-funded. Purchasing charges for FY 2024-25 were increased accordingly and the negative fund balance has been corrected as of the end of FY 2024-25.

Review of First Quarter Budget Results

Your Board adopted the county's FY 2025-26 budget on June 24, 2025, with a \$12.0 million ongoing budget deficit in the General Fund. Your Board utilized one-time fund balance to make investments in fiscal sustainability including contributions to the General Reserve and Deferred Maintenance and setting funds aside in contingencies for ongoing labor negotiations.

Cannabis Excise Tax

Since FY 2022-23, your Board has either waived Measure S Cannabis Excise taxes or reduced them to 10%. Due to the ongoing uncertainty of collections, staff did not budget this as a revenue source in FY 2025-26. On Oct. 28, 2025, your Board received an update on the Cannabis Excise Tax, in which it was

reported that \$11.5 million remained outstanding. Additionally, your Board considered the future of the Measure S and ultimately decided to repeal Measure S and directed staff to return with an agenda item effectuating the Board's direction.

Voluntary Separation Incentive Program (VSIP)

Your Board directed staff to develop a VSIP in FY 2025-26. On Aug. 12, 2025, your Board approved the program plan and the designation list of positions that would be eligible. Departments designated five positions as eligible for the VSIP. One county employee submitted for the VSIP in the General Fund. It is anticipated that more than \$400,000 will be saved in the General Fund through FY 2027-28 for this VSIP.

Voluntary Furlough

Your Board continued to authorize departments to offer voluntary furlough. During this fiscal year, Human Resources helped the CAO develop a report on voluntary furlough. During FY 2024-25, a total of 46 county employees participated in voluntary furlough for an estimated savings of \$219,718.

Voluntary Furlough

Fund	Employees	Amount
1100	19	\$ 113,262
1120	1	\$ 442
1160	12	\$ 41,715
1170	2	\$ 7,324
1175	5	\$ 18,051
1200	2	\$ 19,629
1500	2	\$ 4,593
3500	1	\$ 5,534
3520	1	\$ 159
3550	1	\$ 9,008
Total	46	\$ 219,718

Recommendations

Recommendation #2: DHHS

As discussed previously in this report, DHHS has significant negative fund balances, of which, Fund 1160 - Social Services Administration continues to fall deeper into the negative. Staff recommend your Board take the following action to mitigate the ongoing deficit:

- Approve a hiring freeze on Fund 1160 and authorize the CAO, or designee, to grant exceptions to the hiring freeze;
- Direct DHHS to submit quarterly financial reports to the CAO and the Auditor-Controller in a format determined by the CAO and Auditor-Controller;
- Direct DHHS to submit a report by the end of the fiscal year that details mandated programs and services and associated costs; and
- Direct DHHS to bring back program prioritization and reduction recommendations with the FY 2026-27 annual budget cycle.

DHHS staff have reported that they have already begun the work necessary to implement these recommendations. Your Board's action will signal support for this action and begin necessary steps toward regaining fiscal stability in DHHS funds.

Recommendation #3: Budget Adjustments

During the First Quarter Budget Report, the CAO frequently brings forward budget adjustments on behalf of departments to decrease the number of individual items coming to the Board and provide time savings to departments. Most of the changes are related to carryforward of unspent, budgeted funds from the prior budget year. The recommended budget adjustments requested are detailed in Attachment 1. These include:

- \$50,000 Economic Development & Promotion (1100-181) - Carryforward of FY 2024-25 approved Transient Occupancy Tax Contribution for Marketing Assessment as contract will be paid out in FY 2025-26.
- \$50,000 Economic Development (1120-275) - Necessary budget adjustment in the Economic Development Fund to effectuate the carryforward of FY 2024-25 approved Transient Occupancy Tax Contribution for Marketing Assessment as contract will be paid out in FY 2025-26.
- \$3,160 Contributions - Other (1100-199) - Carryforward of remaining balance of FY 2022-23 approved contribution to the Human Rights Commission, previously carried forward into FY 2023-24 and FY 2024-25.
- \$4,017 Contributions - Other (1100-199) - Carryforward of remaining balance of FY 2024-25 approved contribution to the McKinleyville Municipal Advisory Committee.
- (\$677,428) District Attorney (1100-205) - Reduction of the District Attorney budget for Asset Forfeiture funds as a result of lack of available funds.

- \$14,904 Correctional Facility (1100-243) - Carryforward of FY 2024-25 refund for metal bunk purchase on PO# DD8543.
- \$122,364 Current Planning (1100-277) - Carryforward of the remaining FY2021-22 General Fund allocation for additional building improvements at the Clark Complex beyond the ADA requirements.
- \$1,534,624 Measure Z Contributions Other (1103-197) - Carryforward of FY 2024-25 fire expenditures, of which \$1,164,649 has been ordered, but not received for the Humboldt County Fire Chief's Association (HCFA).
- (\$169,542) Library (1500-621) - Reduction of Library budget due to lower than expected remaining fund balance and revenue corrections, this reduction is offset by additional donation revenues.
- (\$64,497) American Rescue Plan Act (ARPA) (3232-120200) - Reduction of \$64,497 due to additional expenditures in the prior year on the HVAC IT Project, resulting in less remaining project expenditures than anticipated in the adopted budget.
- \$1,310,472 Capital Projects (3562-170) - Transfer fund balance from Fund 3562 for Finance Plan Draws placed in the incorrect fund.

Approval of these budget adjustments will decrease overall budget appropriations in the General Fund by (\$482,983). This is an overall reduction due to the Asset Forfeiture District Attorney budget reduction and will not have an impact on the General Fund ongoing budget deficit as these were funded by external funding sources.

Future Budget Outlook

The estimated available General Fund balance for use in FY 2025-26 is \$35.4 million. With a \$12.0 million adopted structural budget deficit in FY 2025-26 and additional one-time appropriations of fund balance to the General Reserve, Deferred Maintenance and contingencies for labor negotiations in the amount of \$8.8 million, the total budgeted use of fund balance in FY 2025-26 is budgeted to be \$20.8 million. Should expenditures take place as budgeted, it is anticipated there will be \$14.6 million remaining to fund FY 2026-27.

General Fund Projection

FY 2024-25 Ending Fund Balance	35,571,836
Carryforward to FY 2025-26	(194,445)
FY 2025-26 Available General Fund Balance	35,377,391
FY 2025-26 Adopted Budget Fund Balance Use (without Measure Z)	(20,757,178)
FY 2025-26 Available General Fund Balance	14,620,213

This is positive news for funding next fiscal year, and it is still recommended that your Board and departments stay the course to continue to work toward a balanced budget in which ongoing revenues balance to ongoing expenditures in future years. As always, it is critically important this year that departments are realistic with their year-end budget projections provided at the mid-year budget report, so that reliable fund balance projections can be established for staff to provide recommendations to your Board for FY 2026-27 budget development.

SOURCE OF FUNDING:

All County Funds

FINANCIAL IMPACT:

Expenditures (Various)	FY 25-26
Additional Appropriation Requested	\$2,177,624.00
Total Expenditures	\$2,177,624.00
Funding Sources (Various)	FY 25-26
1100 General Fund	\$194,445.00
1100 General Fund - DA Asset Forfeiture	\$677,428.00
1103 - Measure Z	\$1,534,624.00
1120 - Economic Development - GF Contribution	\$50,000.00
1500 - Library Fund	(\$169,542.00)
3232 - ARPA	(\$64,947.00)
3562 - Capital Projects Fund	\$1,310,472.00
Total Funding Sources	\$2,177,624.00

**Projected amounts are estimates and are subject to change.*

The financial impact is detailed in the report. If your Board takes action as recommended, the recommended budget adjustments will decrease the overall county General Fund (1100) budget by (\$482,983), increase the Measure Z fund (1103) budget by \$438,292, increase the Economic Development fund (1120) by \$50,000, decrease the Library fund (1500) budget by (\$169,542), decrease the Emergency Response fund (3232) by (\$64,947) and increase the Capital Projects fund (3562) by \$1,310,472.

STAFFING IMPACT:

The recommended actions will not impact current staffing levels.

File #: 25-1334

OTHER AGENCY INVOLVEMENT:

None

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion.

ATTACHMENTS:

1. First Quarter Budget Adjustments FY 2025-26

PREVIOUS ACTION/REFERRAL:

Meeting of: 4/22/25, 4/22/25, 6/3/25, 6/24/25, 10/28/25

File No.: 25-498, 25-373, 25-665, 25-772, 25-1233