



COUNTY OF HUMBOLDT

For the meeting of: 2/10/2026

File #: 26-70

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

Vote Requirement: 4/5th

SUBJECT:

Mid-Year Budget Review for Fiscal Year (FY) 2025-26, Budget Outlook for FY 2026-27 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 2025-26 budget and the budget outlook for FY 2026-27; and
2. Direct the County Administrative Officer (CAO) to prepare the FY 2026-27 budget based on the following parameters:
 - a. Set departmental General Fund allocations from the General Fund to increase by 5% based on current year General Fund allocations; and
 - b. Adjust General Fund allocations further for departments impacted by the raises approved in the CAA/Teamsters bargaining unit and other attorney classifications; and
 - c. Deallocate FY 2026-27 unbudgeted positions; and
 - d. Accept only additional requests for General Fund appropriation (ARGFA) that are for one-time expenditures up to \$250,000 per request; and
 - e. Set the annual departmental contributions to Public Agency Retirement Services (PARS) to 2% of annual salaries; and
 - f. Approve a contribution to the Deferred Maintenance Trust Fund (3464) as determined by county policy; and
 - g. Approve the transfer from the Tax Loss Reserve of \$2 million for FY 2026-27, so long as the minimum reserve is retained; and
 - h. Approve a contribution to the General Reserve to meet county policy requirements; and
 - i. Approve Human Resources - Risk Management to increase the Self-Insured Retention (SIR) for liability insurance to \$400,000; and
 - j. Provide additional direction to staff on actions to close the FY 2026-27 projected General Fund budget deficit; and
3. Approve the list of budget adjustments (Attachment 1) and authorize CAO staff to make any technical corrections necessary to effectuate the Board's direction (4/5 Vote Required); and
4. Direct staff to return at third quarter only if the budget parameters set forth for FY 2026-27 require substantial changes; and
5. 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:

Historically, the CAO undertakes a mid-year financial review each FY. The mid-year review serves the dual purpose of monitoring the county's budget for the current FY and providing staff, the Board and the public with a preview of the county's financial status going into the next budget year. The Auditor-Controller's Office is working with the county's outside auditors to complete the FY 2024-25 annual audit. 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 2025-26 and projected revenue for FY 2026-27; and
2. An overview and budget outlook of the known factors which may affect the county's financial condition heading into FY 2026-27; and
3. Policy decisions for the 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 2026-27.

Section 1: Review of Mid-Year Financial Condition for FY 2025-26 and Look Ahead to FY 2026-27

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 2025-26, the General Fund began FY 2025-26 with an estimated positive fund balance of \$35.6 million. As reported at that time, there was still work to be done by the Auditor-Controller to close FY 2024-25. Since then, FY 2024-25 has been closed and the external audit has begun. As with prior years, there may be audit adjustments as a result of the external audit that could impact fund balance. As of this mid-year budget report, the estimated FY 2024-25 ending fund balance for the General Fund is \$35.4 million, a decrease of \$200,000 from what was reported at the First Quarter. The FY 2025-26 budget was adopted with a \$12.0 million structural deficit.

Property Tax

The main source of discretionary revenue for the county is property taxes. Annually, per Government Code Section 29100, the Board sets the tax rates for the secured roll for the County of Humboldt, school districts and special districts. On Sept. 23, 2025, the Board set the tax rate for FY 2025-26 at \$1 per \$100 of assessed value. Property Tax continues to perform well, with the first tranche above budgeted estimates. Based on the initial tax receipts, the General Fund is estimated to receive an additional \$587,000 in discretionary property tax revenue in FY 2025-26.

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 revenue, which has been declining for Humboldt County, is expected to remain stable in the current year and anticipated that it will decline slightly in FY 2026-27 before making a return to small growth in future 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 will begin providing projections on the Measure O Sales Tax in future years. 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 up \$217,465 from the original FY 2025-26 budget of \$5.15 million. County sales tax is down (0.3%) over the prior year for Quarter 3 (Q3), 2025, consistent with other northern counties, while the state as whole was up 1.9%.

The early estimate by HdL for FY 2026-27 Bradley Burns sales tax revenue is \$5.3 million, a (1.3%) decrease from the revised estimated actuals for FY 2025-26 and an increase of \$150,000 over the current year budget.

Bradley Burns Sales Tax

Fiscal Year 2024-25

Adopted Budget	5,400,000
Actuals	5,307,704
Decrease	<u>(92,296)</u>

Fiscal Year 2025-26

Adopted Budget	5,150,000
Revised Estimated Actual	5,367,465
Increase	<u>217,465</u>

Fiscal Year 2026-27

Projected	5,300,000
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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-wide 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 \$114,115 from the original FY 2025-26 budget of \$13.0 to \$13.1 million. The preliminary projection from HdL for FY 2026-27 Measure Z Sales Tax revenue is \$13.1 million, reflecting a flat projection. Due to the volatility of sales tax, staff recommend projecting Measure Z Sales Tax for FY 2026-27 at \$13.0 million, the same as budgeted in FY 2025-26.

Measure Z is anticipated to end FY 2025-26 with a fund balance of \$2.3 million, of which \$864,000 is set aside for reserve, leaving \$1.4 million estimated to be remaining at the end of FY 2025-26, of which \$172,260 is anticipated additional revenue and expenditure savings in FY 2025-26. On Jan. 16, 2025, the Measure Z Committee met and released the FY 2025-26 Measure Z application. The Board-approved spending plan allows for \$500,000 of revenue above the spending plan to be available for applications and any anticipated savings in the current year are reserved for the following application cycle. Therefore, there is \$1.7 million available for the FY 2026-27 application cycle. In order to maintain a buffer, staff recommended \$1.65 million be made available for applications in the FY 2026-27 Measure Z cycle.

FY 2025-26 Estimated Fund Balance 1103 - Measure Z - Public Safety	
Beginning Fund Balance	5,014,655
Estimated Revenues	13,134,800
Estimated Expenditures	15,870,189
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(2,735,389)
Estimated Ending Fund Balance	2,279,265
Established Reserve	(864,000)
Estimated Ending Available Fund Balance	1,415,265
Anticipated Revenue Overages and Expenditure Savings	(172,620)
FY 2026-27 Revenue Above Spending Plan	500,000
FY 2026-27 Available to the Committee for Applications	1,742,645

Measure O Sales Taxes

Measure O is a 1-cent sales tax that your Board placed on the November 2024 ballot for Roads and Transportation. Measure O passed with 63% approval and is anticipated to bring in \$24 million annually. Sales tax payments are received two months in arrears, with the first payments coming starting in June 2025, for the first month of receipts for April 2025. Staff are working to contract with HdL to receive sales tax projections for Measure O, similarly to Measure Z.

As reported at first quarter, Measure O performed as anticipated in FY 2024-25 receiving \$6.1 million. Your Board allocated \$3 million of these funds to the negative fund balance in the Roads fund to be deposited in FY 2025-26 and \$3 million to Roads for initial projects in FY 2025-26. The additional revenue beyond the anticipated \$6 million is \$81,560. Similar to Measure Z, your Board directed staff to have a true up process for Measure O, therefore revenue above projections for FY 2024-25 will be available in FY 2026-27. Further your Board directed that excess revenues will be allocated 50% to the Roads negative fund balance until it returns to the positive and 50% to contingencies until it reached 16% of annual revenue (approximately \$3.84 million). After those conditions are met, additional revenues will be split 85% to Roads and 15% to transit. In FY 2026-27, the \$81,560 in additional FY 2024-25 revenues will be split with \$40,780 to the Roads negative fund balance and \$40,780 to contingencies.

As this Measure is so new and staff are still working to contract for sales tax projections, it is difficult to predict future performance improvements. Looking to Measure Z as a guidepost, it is anticipated that FY 2026-27 will be relatively flat to FY 2025-26 which is performing as anticipated. For these reasons, staff recommend projecting \$24 million in revenue for FY 2026-27.

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 2025-26 is based on the calendar year 2024 sales tax receipts.

In contrast to the last several years, Prop 172 revenues seem to have stabilized a bit and are projected to have a small amount of growth. Revised projections as of Q3 2025 for FY 2025-26 for the county share of Prop 172 revenues are \$246,000 more than the budget of \$11.0 million. Looking forward to FY 2026-27, projections are anticipated to be relatively stable with just a slight increase from the current FY 2025-26 projections. Staff recommend projecting \$11.2 million in FY 2026-27 to account for the small amount of anticipated growth.

Measure S

On Jan. 27, 2026, your Board received the introduction of an ordinance to repeal the Measure S cannabis cultivation excise tax and set Feb. 10, 2026, as the date to adopt ordinance. This was the culmination of your Board’s actions to provide relief to cannabis cultivators over the last several years. Staff have not recommended budgeting this funding source since FY 2023-24 due to the volatile nature of the revenues. During that time, your board waived the tax or implemented it at 10%. Staff continue to collect on previously assessed taxes from prior years which could provide a small amount of revenue going forward. In FY 2025-26, it is anticipated that \$500,000 will be received, offset by \$150,000 in refunds, for a net receipt of \$350,000. As Measure S be assessed, staff recommend continuing to not budget for these funds, any funds received are then available in fund balance for consideration in the following year.

Measure S Revenue (less refunds)	
FY 2016-17	178,377.00
FY 2017-18	7,126,998.91
FY 2018-19	11,864,065.73
FY 2019-20	10,788,367.63
FY 2020-21	18,128,665.92
FY 2021-22	3,274,091.31
FY 2022-23	420,439.25
FY 2023-24	751,409.22
FY 2024-25	1,346,288.72

Transient Occupancy Tax (TOT)

TOT revenues have continued to come in above budget after the passage of Measure J. Measure J revenues began in January 2023 and there were a number of changes in accounting accruals in FY 2023-24 which have made TOT difficult to predict. TOT revenues are starting to stabilize after these

changes. In FY 2024-25, TOT receipts were \$4.5 million and staff expect it to stay in that range going forward. Your Board will be considering TOT allocations after the presentation of the results of the marketing study, likely to occur through the budget process in June. When considering the increase in TOT funds, your Board may consider that an additional investment in tourism marketing is necessary. In consideration of this staff recommend projecting \$4.5 million in TOT revenue in FY 2026-27, an increase of \$1.1 million from the current year’s budget and recommend projecting a similar increase in TOT expenditures.

Estimated FY 2025-26 General Fund - Fund Balance

The FY 2025-26 Adopted Budget includes \$20.8 million in fund balance use, of which, \$8.8 million is attributed to one-time contributions to contingencies, General Reserves and deferred maintenance, and \$12.0 million is a structural deficit in the General Fund. As identified by departmental mid-year reviews, General Fund net costs through June 30, 2025, show expenditures exceeding revenues by \$9.1 million instead of \$20.8 million, an \$11.7 million improvement over the adopted budget, of which \$7.4 million is improvement in the structural deficit and \$4.3 million is anticipated remaining contingencies for labor negotiations. Based on mid-year submissions, it is anticipated that the General Fund will end FY 2025-26 with \$26.4 million in fund balance.

FY 2025-26 Estimated Fund Balance 1100 - General Fund	
Beginning Fund Balance	35,442,042
Estimated Revenues	140,319,409
Estimated Expenditures	149,379,176
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(9,059,767)
Estimated Ending Fund Balance	26,382,275

This positive news is primarily due to the following:

- \$4.2 million in increased discretionary revenues including increases in property taxes, unbudgeted Measure S tax collections, TOT and interest revenue
- \$692,000 in anticipated expenditure savings in the Facilities Management budget
- \$400,000 in anticipated expenditure savings in the Juvenile Hall budget
- \$483,000 in anticipated additional revenue and expenditure savings in the Building Inspector budget
- \$488,000 in anticipated expenditure savings in the Sheriff’s Operations budget
- \$1.1 million in additional anticipated expenditure savings by other county departments
- \$4.3 million in unused labor negotiations contingency

Department of Health and Human Services Funds (1110, 1160, 1170, 1175 & 1180)

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.

Budgeted revenues and expenditures are reported to remain on target through mid-year. DHHS is estimated to have ended FY 2024-25 with a negative fund balance of (\$6.3 million), an improvement from what was reported at first quarter of \$1.1 million as balances were finalized. As reported in the First Quarter Budget Report, the primary source of this negative fund balance is due to Fund 1160, Social Services Administration and Fund 1170, Behavioral Health. These two funds have a cumulative negative fund balance of (\$35.6 million) being offset by positive fund balances in Fund 1175, Public Health and Fund 1180, Alcohol & Other Drugs.

DHHS anticipates that the year-end negative fund balance for the Social Services Administration Fund (1160) will improve from (\$24.6 million) to an estimated (\$14.8 million) due to the department’s work to manage expenditures. Your Board implemented several fiscal monitoring measures for Fund 1160 at the First Quarter Budget Report including a hiring freeze, quarterly financial reporting to the CAO and Auditor-Controller, a review of mandated programs and program reduction recommendations for the upcoming budget cycle. The Behavioral Health Fund (1170) still has a large outstanding long-term receivable balance, \$10.7 million reported at first quarter and four years of claims adjudication for FYs 2019-20 through 2022-23 still to be completed. The completion of the claims adjudication process is very unpredictable. Despite this, Behavioral Health anticipates ending FY 2025-26 with a negative fund balance of (\$7.5 million), an improvement of \$3.5 million over FY 2024-25. In total, DHHS estimates bringing their overall fund balance back to the positive in FY 2025-26 at \$6.9 million, an improvement of \$13.1 million over the prior year.

FY 2025-26 Estimated Fund Balance	
DHHS	
Beginning Fund Balance	(6,257,976)
Estimated Revenues	292,932,192
Estimated Expenditures	279,786,424
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	13,145,768
Estimated Ending Fund Balance	<u>6,887,792</u>

1120 - Economic Development Fund

As reported at the First Quarter, the Economic Development Fund ended FY 2024-25 with a fund balance of \$462,292. Budgeted revenues and expenditures remain on target through mid-year with a slight increase in use of fund balance due to timing of revenue receipts, increasing fund balance use from \$83,312 in the adopted budget to \$122,291, a 46.8% increase. The estimated ending fund balance for FY 2025-26 is \$340,001. As the Economic Development Fund has been stabilized, it will no longer be individually reported on in future budget reports as long as it remains stable.

FY 2025-26 Estimated Fund Balance 1120 - Economic Development	
Beginning Fund Balance	462,292
Estimated Revenues	4,623,532
Estimated Expenditures	4,745,823
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(122,291)
Estimated Ending Fund Balance	<u>340,001</u>

1200 - Roads Fund

As reported at First Quarter, the ending negative fund balance for the Roads Fund in FY 2024-25 was (\$11.8 million). Staff reported an anticipated small decrease of (\$128,657) in FY 2025-26 for an estimated ending negative fund balance of (\$12.0 million). After further review, staff did not include the Measure O Contribution of \$3.0 million, therefore that is included as an adjustment to fund balance resulting in an estimated ending negative fund balance for FY 2025-26 is (\$9.0 million). As previously reported, the Roads fund has struggled over the past decade and roadways continue to deteriorate, requiring substantial resources to maintain and repair failing infrastructure. In addition, recent storms have compounded the strain on the Roads Fund as staff work to recoup disaster assistance funding from state and federal agencies, a process that can span many fiscal years and is not guaranteed to be successful. The passage of Measure O has allowed Public Works - Roads to begin working on a backlog of road maintenance in FY 2025-26 and help to provide ongoing, locally-controlled funding for road maintenance, as well as qualify for additional funding from state and federal sources.

**FY 2025-26 Estimated Fund Balance
1200 - Roads**

Beginning Fund Balance	(11,880,777)
Estimated Revenues	64,352,204
Estimated Expenditures	64,480,861
Estimated Other Financing Sources (Uses)	-
Fund Balance Adjustments	
Measure O FY 2024-25 Contribution to Fund Balance	3,000,000
Estimated Fund Balance Adjustments	-
Estimated Use of Fund Balance	2,871,343
Estimated Ending Fund Balance	<u>(9,009,434)</u>

1500 - Library Fund

The Library Fund ended FY 2024-25 with a fund balance of \$259,292. This is an increase of \$149,062 over the reported balance at First Quarter due to adjustments to accounts receivables. As reported at first quarter, the Library Fund ended FY 2024-25 over budget utilizing more fund balance than anticipated and therefore had to make a number of budget adjustments at First Quarter for FY 2025-26. Budgeted revenues and expenditures remain mostly on target with the adjusted budget through mid-year. With the budget adjustments at First Quarter, the Library has reduced fund balance use from \$519,145 in the adopted budget to \$230,576, a 55% decrease. The estimated ending fund balance for FY 2025-26 is \$28,717.

Looking forward to FY 2026-27, the Library will need to consider budget reduction options such as programmatic changes and reductions in service hours as the Library has been utilizing fund balance over the last several years to balance operating costs.

**FY 2025-26 Estimated Fund Balance
1500 - County Library**

Beginning Fund Balance	259,292
Estimated Revenues	5,765,517
Estimated Expenditures	5,996,093
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(230,575)
Estimated Ending Fund Balance	<u>28,717</u>

1720 - North Coast Resource Partnership Fund

As reported at the First Quarter, the North Coast Resource Partnership Fund ended FY 2023-24 with a fund balance of negative (\$2.1 million). Public Works’ Natural Resources reports budgeted revenues and expenditures remain on target through mid-year with a slight improvement in fund balance of \$267,452 to (\$1.8 million). At First Quarter, staff reported sufficient long-term receivables to resolve the negative fund balance.

**FY 2025-26 Estimated Fund Balance
1720 - Northcoast Resource Partnershi**

Beginning Fund Balance	(2,107,964)
Estimated Revenues	18,896,793
Estimated Expenditures	18,629,341
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	267,452
Estimated Ending Fund Balance	<u>(1,840,511)</u>

Aviation Funds (3530, 3539)

As reported as the First Quarter, the Aviation Enterprise Fund (3530) and Aviation Capital Projects Fund (3539) ended FY 2024-25 with a combined negative fund balance of (\$6.9 million). The negative fund balance is partially attributed to outstanding reimbursements in Federal Aviation Administration (FAA) grant funding due to pending grant closeouts. Budgeted revenues and expenditures remain on target through mid-year, and staff anticipate that the Aviation Funds will end FY 2025-26 with an improvement in fund balance of \$734,727. The estimated ending fund balance for FY 2025-26 remains negative at (\$6.2 million).

Aviation continues to pursue opportunities for revenue generation to resolve the funding gaps and anticipates the upcoming expansions of service will bring new revenue.

FY 2025-26 Estimated Fund Balance Aviation	
Beginning Fund Balance	(6,921,013)
Estimated Revenues	8,512,506
Estimated Expenditures	7,777,779
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	734,727
Estimated Ending Fund Balance	(6,186,286)

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 (eight ISFs); Communications; Purchasing; Americans with Disabilities Act (ADA); and Information Technology. Based on mid-year submissions, staff anticipate that these funds will end FY 2025-26 with a year-end fund balance of \$28.3 million, an increase of \$4.6 million from the previous year. The increase in fund balance is primarily attributed to the Workers Compensation fund, Liability fund and Medical Plan fund. Risk Management has worked to reduce insurance premiums in Workers Compensation and Liability over the last several years.

FY 2025-26 Estimated Fund Balance Internal Service Funds	
Beginning Fund Balance	23,612,791
Estimated Revenues	76,148,889
Estimated Expenditures	71,485,534
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	4,663,354
Estimated Ending Fund Balance	28,276,145

All ISF’s are anticipated to end FY 2025-26 with positive fund balances. As part of the development of the ISF charges in FY 2026-27, staff will utilize fund balance to reduce charges for county departments where possible.

Section 2: Budget Outlook for FY 2026-27

As your Board directs county staff to begin preparing a budget for next FY, 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 continues to be important, given the county's ongoing structural budget deficit and negative fund balances in a number of funds.

The Proposed State Budget

The Governor released the state's Proposed Budget for FY 2026-27 on Jan. 9, 2026. 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. There is disagreement between the Governor's budget and the Legislative Analyst's Office (LAO) regarding the estimated budget deficit the state is facing in the coming year. The Governor is optimistic, estimating a \$2 billion deficit, while the LAO predicts it will be much larger at \$18 billion. The discrepancy lies in the nature of the state's revenues, which are wildly unpredictable and highly dependent on the stock market and personal income taxes of the wealthiest people in the state. The Governor is projecting high revenues in this area, while the LAO is more conservative. This is impactful to counties as those projections drive how much state spending is available for county-run programs.

Federal Budget Impacts (HR1)

In FY 2026-27, the county will begin to be impacted by HR1, and at this point, the state budget does not include any assistance to counties for these impacts. Specifically, HR1 will impact Supplemental Nutrition Assistance Program (SNAP) and Medi-Cal administration with increasing costs to administer these programs and reductions in the federal share of costs. Just SNAP administration costs are anticipated to increase over \$1 million for the county. In addition to the program administration impacts, this will reduce benefits to the community which in turn is anticipated to strain local healthcare and food insecurity resources.

Expenditure Increases for FY 2026-27

Personnel Costs

Salaries and benefits remain the largest expense in the county budget. Despite no additional planned cost of living adjustments (COLA's) included in this projection, salaries and benefits are anticipated to increase 7.6%, or \$19.1 million, countywide over the FY 2025-26 adopted budget. Through the budget process, departments will identify vacancies that can be budgeted, which will help reduce this increase. The primary increases are in base salaries, health insurance and pension costs. The General Funds' increase in salaries and benefits is more modest, anticipated to increase by 6.1% or by \$4.8 million.

As noted, health benefits are the most notable benefit increase in FY 2026-27. In FY 2025-26, your Board approved labor agreements which included the county absorbing the cost of health insurance premiums for employees in the 2025 and 2026 health plan years. Health benefits are anticipated to increase by 21%, or \$6.2 million. For the General Fund, this increase amounts to \$1.5 million or nearly a third of the increase in General Fund salaries and benefits total increase.

In the FY 2025-26 budget, your Board directed staff to utilize accumulated pension fund balance to reduce and smooth pension costs for departments. Given that, the pension costs are higher in this fiscal year. While the Public Employees' Pension Reform Act (PEPRA) is finally showing an impact in the normal pension rates for staff with very small reductions in both Safety and Miscellaneous normal rates, the Unfunded Accrued Liability (UAL) has continued to rise, primarily in Safety retirements. This is still expected to peak between FY 2029-30 and FY 2030-31 assuming average returns. CalPERS is a pre-funded plan, meaning that 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. CalPERS has realized positive investment returns in the last two years which is helpful to reducing UAL costs. In FY 2026-27, the cost for non-safety employees is anticipated to decrease by (1.02%) and for safety employees to increase by 5.59%. The increase in safety employee pensions primarily impacts the General Fund.

Insurance

Due to utilizing accumulated fund balance and adjustments in insurance, workers compensation charges will be decreasing countywide while increases particularly in property insurance result in increases in insurance charges. Overall, the decreases in workers compensation offset the increases in insurance charges. Charges for liability and property insurance for the county are projected to increase by \$1.5 million or 13.0% and workers compensation is anticipated to decrease by \$2.5 million or (31.5%). Human Resources - Risk Management staff continue to work to reduce insurance charges for the county and utilize fund balance if available due to this work. The anticipated overall decrease in charges to the General Fund in FY 2026-27 is (\$521,000).

County Medical Services Program (CMSP)

CMSP provides health coverage for uninsured low-income, indigent adults that are not otherwise eligible for other publicly funded health care programs. After the passage of the Affordable Care Act (ACA), the population served by CMSP dwindled due to the expansion of Medicaid. Prior to the ACA, CMSP would charge a participation fee to participating counties. Beginning in FY 2014-15, CMSP began waiving the participation fee due to the low number of individuals being served.

Due to the implementation of HR1 and anticipated reductions in medical coverage for indigent populations, it is anticipated that the use of CMSP will increase in the coming years, and it is expected that CMSP will no longer waive the participation fee for counties. In the last year that the county paid the participation fee, it was \$430,851. It is anticipated that the county will need to budget for this in

FY 2026-27.

Revenue Changes for the General Fund

In summary of the revenue projections above, FY 2025-26 overall revenue is projected to be on track with notable anticipated increases primarily in interest revenue, unbudgeted Cannabis Excise taxes and modest increases in property taxes. In FY 2026-27, property tax discretionary revenue is anticipated to increase by 2% over the estimated actual FY 2025-26 revenue, or \$1.2 million. Bradley Burns sales tax is anticipated to decrease approximately \$70,000 and Prop 172 sales tax is anticipated to increase slightly by roughly \$200,000. As previously mentioned, TOT has finally stabilized, however, staff recommend your Board hold these additional funds for future tourism marketing decisions. TOT is projected to remain stable with FY 2025-26 actual receipts in FY 2026-27 at \$4.5 million.

Cannabis Excise Tax has been eliminated by your Board. It remains difficult to predict any past due payments that may be remitted. For this reason, that funding is removed from FY 2026-27 projections.

Local and Tribal Consistency Funds (LATCF)

Through the American Rescue Plan Act, the U.S. Department of the Treasury established the 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, the Board allocated \$1 million of these funds to establish an Earthquake Recovery and Assistance Program to assist residents displaced as a result of the December 2022 earthquake and subsequent aftershocks. Of the \$1 million, \$618,103 has been spent and \$250,000 remains obligated by contract. At this time, \$131,897 remains available from the earthquake allocation and \$2.2 million remains available and unallocated.

General Fund Shortfall

The chart below details the projected FY 2026-27 shortfall in the county's General Fund. This projection maintains contributions to the General Reserve and Deferred Maintenance to continue to improve the county's fiscal sustainability. Despite an anticipated ongoing budget deficit, over the last several years county departments have proven an ability to tighten belts and constrain spending which has allowed the General Fund to continue to maintain a healthy fund balance. In FY 2025-26, your Board budgeted a contingency for labor negotiations. Given the county will be entering labor negotiations again in FY 2026-27, staff recommend maintaining the \$5 million contingency for this purpose.

The estimated shortfall for FY 2026-27 is estimated to be \$15.9 million. Based on an estimated \$26.4 million of available fund balance for FY 2026-27, there will be enough funds to cover the General Fund

shortfall and anticipate having nearly \$10 million in funds left over to fund FY 2027-28. Since many departments’ budgets are still not accounting for vacancies, the budgeted shortfall will likely be larger than this amount.

General Fund Preliminary Estimated FY 2026-27 Shortfall
(in millions)

FY 2025-26 Estimated Actuals Fund Balance Use	(9.06)
 Revenue Changes from Estimated FY 2025-26	
Property Tax Increase	1.18
Bradley Burns Sales Tax Decrease	(0.07)
Prop 172 Sales Tax Increase	0.20
Cannabis Excise Tax Decrease	(0.35)
Total	0.96
 Salary & Benefit Changes	
Salary Increases	(1.68)
Health Increases	(1.45)
Retirement Increases	(1.24)
Other Benefit Increases	(0.40)
Labor Negotiations Contingency	(5.00)
Total	(9.77)
 Other Revenue/Expenditure Changes	
Workers Comp Liability and Property Insurance Decrease	0.52
CMSP Cost Increases	(0.43)
Total	0.09
 Preliminary Estimated FY 2026-27 Shortfall	 (17.78)

Section 3: Policy Considerations

FY 2025-26 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:

- \$50,000 Contributions-Other (1100-199) - The McKinleyville Municipal Advisory Committee (MMAC) received an earmark from the State in the amount of \$50,000 to complete a feasibility study for the incorporation of McKinleyville. As a commission of the Board of Supervisors, the county receives these funds and acts as the fiduciary.
- \$53,021 Sheriff - K9 Program (1100-221110) - The Humboldt Deputy Sheriff's Organization (HDSO) made a donation to the Sheriff K9 Program on Jan. 28, 2025, per agenda item 25-147. The donation was made possible due to support from the Christine and Jalmer Berg Foundation. The donation is specifically for the K9 Program to enhance the program and is not intended to supplant or replace any other budgeted resources for the program. As no funds were expended in FY 2024-25, this budget adjustment carries forward these funds into FY 2025-26.
- \$430 Sheriff - Office of Emergency Services (OES) (1100-274) - OES received a donation from the Humboldt Area Foundation to purchase food for an OES training.
- (\$35,535) Sheriff - Boating Grant (1100-221900) - The HCSO has been the recipient of the California Boating Safety and Enforcement Grant for many years. The amount has historically been \$121,000 and has been budgeted as part of the annual budget submission due to the reliability of the grant award. However, in July 2025, due to the insolvency of the state's Harbors and Watercraft Revolving Fund, the grant fund was reduced by \$3 million resulting in all agencies receiving a reduction in their grant award.
- \$32,502 Economic Development - Project Trellis (1120-275422) - Project Trellis equity grant payments for the current Trellis Equity funding round funded by SB 1294 funding through Governor's Office of Business and Economic Development carried forward due to payments anticipated to be paid in the prior year.
- \$127,520 Social Services - APS Home Safe (1160-511012) - Increase in allocated funds for APS Home Safe from the California Department of Social Services (CDSS) to support older adults who are at risk of losing their housing or are homeless.
- \$162,966 Social Services - Bringing Families Home (BFH) Grant (1160-511012) - Increase in allocated funds for the BFH Program from CDSS to supports families experiencing homelessness and who are involved with Child Welfare Services in obtaining and maintaining housing.
- \$30,556 Public Health - MAA/TCM (1175-403) - Higher than anticipated reimbursement for Targeted Case Management (TCM) and Medi-Cal Administrative Activities (MAA) to cover contract fees for participation in the program, travel costs to attend the annual conference to expand organizational knowledge of the program, and to accommodate increased costs to

Persimmony software licenses.

- \$37,601 Public Health - ELC Enhancing Detection Expansion (1175-455010) - Increase in the allocation of Epidemiology and Laboratory Capacity (ELC) Expansion Grant funding for laboratory staffing, laboratory communication lines, as well as vaccination clinic supplies.
- (\$234,485) Public Health - Nutrition & Physical Activity (1175-433) - Reduction in funding in the Cal Fresh Healthy Living Grant (NEOP) and a loss of funding for Area 1 Agency on Aging (A1AA).
- \$25,809 Public Health - CARE NorCAP (1175-437) - Increase in the CMSP Local Indigent Care Needs (LICN) Implementation Grant to enhance services to support accessing Hepatitis C (HCV) treatment (cure).
- \$42,824 Public Health - Needle Exchange (1175-437003) - Increase in the California Overdose Prevention and Harm Reduction Initiative (COPHRI) funds to strengthen substance use disorder response by supporting staffing in harm reduction programs.
- \$28,024 Public Health - Fiscal Agent (1175-449) - Increase in Project HART funds from the US Department of Housing and Urban Development (HUD) that sustains nine beds of Permanent Supportive Housing Services.
- \$19,661 Public Health - HOPWA (1175-470) - Increase in Housing Opportunities for Persons With HIV/AIDS (HOPWA) program funds. HOPWA is funded by HUD and supports housing assistance and other supportive services, including case management services that are designed to reduce or prevent homelessness for persons living with HIV.
- \$150,000 Public Health - Field Nursing (1175-416) - Increase in MAA funding to support restructuring of Field Nursing services.
- \$32,452 Public Health - Foster Care (1175-418001) - Due to programmatic restructuring, there has been an increase of 1.0 FTE in the Health Care Program for Children in Foster Care (HCPCFC). Additionally, overhead costs including workers' compensation, insurance, and rent are higher than were anticipated during the FY 2025-26 budget process. The added FTE will enable the HCPCFC program to utilize more of the Federal administration grant allocation matched by Health Realignment funds.
- \$250,000 Recorder - Record Conversion (1310-267) - On June 10, 2025, the Board of Supervisors approved Board Agenda Item 25-679 including a supplemental budget that covered increase cost in the Restoration project. This adjustment carries forward these funds as none were expended in FY 2024-25.

- \$45,000 Public Works - Natural Resources (1720-289) - The Resources Legacy Fund has awarded the County of Humboldt, by and through its Department of Public Works - Natural Resources Planning (NRP) and on behalf of the North Coast Resource Partnership, a Land Sea Connection Grant to support the implementation of key strategies related to ecosystem conservation, climate resilience and working lands enhancement.
- \$478,375 Communications ISF (3521-151) - Final milestone payment to Motorola for the County of Humboldt Radio Infrastructure Project. Due to changing project timelines, final acceptance is expected in Q3 of FY 2025-26.
- \$156,250 Aviation - Minimum Revenue Guarantee (MRG) (3530-381100) - The Department of Aviation has entered into an MRG agreement with Alaska Airlines to bring daily air service to Seattle. This service will begin in April 2026. An MRG allows the airline to bring new service while receiving a guarantee that it will be profitable for them for a period of two years. The MRG is funded by the Small Community Air Service Development (SCASD) program from the Department of Transportation which was awarded in 2022 for the development of a northern route in the total amount of \$850,000. This funding requires a local match of 32% or \$400,000.
- \$120,000 SHF Fed Asset Forf. DOJ (3637-301) - Purchase of a jet boat to aid the Sheriff's Office in emergency and search and rescue operations from federal asset forfeiture funds.
- \$75,000 SHF Fed Asset Forf. DOJ (3637-301) - Purchase of Beacon Handheld scanners to enhance the Correctional Facility's ability to meet new Title 15 guidelines from federal asset forfeiture funds.
- \$77,140 DTF Fed Asset Forf. DOJ (3637-302) - The Drug Task Force (DTF) received federal Department of Justice (DOJ) asset forfeiture funds in FY 2024-25. It has been many years since DTF had federal funds to assist with its operations. DTF has seen a decline in its state forfeiture funding and requests to utilize the federal funds to help pay for day-to-day operations.
- \$180,629 Headwaters Revolving Loan Fund (3843-000) - Correction of fund balance for prior year interest revenue to transfer to the Headwaters Liquidity Fund (3847000).
- \$29,006 Headwaters Loan Loss Reserve Fund (3844-000) - Correction of fund balance for prior year interest revenue to transfer to the Headwaters Liquidity Fund (3847000).
- \$28,473 Headwaters Community Investment Fund (3846-000) - Correction of fund balance for prior year interest revenue to transfer to the Headwaters Liquidity Fund (3847000).
- \$8,129 Headwaters Grant Fund (3848-000) - Correction of fund balance for prior year interest revenue to transfer to the Headwaters Liquidity Fund (3847000).

- \$257,342 Headwaters Investment Fund (3852-000) - Correction of fund balance for prior year interest revenue to transfer to the Headwaters Liquidity Fund (3847000).

Transfer from Contingencies (1100-990)

In addition to the above supplemental budgets, one transfer from contingencies is included in Attachment 1 pursuant to your Board's direction. That adjustment is as follows:

- \$100,000 Public Works - Parks & Recreation (1100-713) - Transfer from contingencies in the current year for multiple years of deferred maintenance, insufficient funding and deteriorated Park and Trail facilities.

Recommendations

Set Parameters to Guide FY 2025-26 Budget Preparation

General Fund Allocations

Over the last several years, General Fund departments have absorbed inflation increases without any increase in General Fund allocations. This has proven to be helpful in managing the General Fund's ongoing budget deficit. The General Fund has also maintained a healthy fund balance throughout this time due to the work of departments. In FY 2023-24, the budgeted deficit was \$18.4 million, the year ended increasing fund balance by \$4.4 million. In FY 2024-25, the budgeted deficit was \$20.8 million, the year ended using only \$7.7 million. Due to the large amount of savings recognized from budget, staff recommend a 5% increase in General Fund allocations while directing departments to still use caution and be fiscally conscious in spending decisions. This increase is estimated at approximately \$4.5 million.

Additionally, staff recommend the Board authorize the CAO to make adjustments to General Fund allocations, particularly in departments impacted by the attorney classification raises that were approved by your Board.

Deallocate FY 2026-27 Unbudgeted General Fund Positions

Implemented in the last two years, deallocating unfunded positions has been successful in improving tracking. In prior years, departments had utilized vacancies to balance their budgets. This has resulted in having substantial unbudgeted positions year after year. This was problematic for tracking and prevented a comprehensive review of salary and benefits in terms of the budget. In addition, AB 2561 which requires the county to present the status of vacancies and recruitment and retention efforts at a public hearing at least once per fiscal year and in the event that the agency has a bargaining unit with 20% or higher vacancy rate, additional reporting will be imposed. By deallocating unbudgeted positions, these positions will not count as vacancies when they are not able to be filled.

Additional Request for General Fund Appropriations (ARGFA)

Similarly to the General Fund allocations, departments have put off large purchases to maintain their budgets within their allocations. Given the improved status of the General Fund, staff recommend your Board consider directing the CAO to accept ARGFAs for one-time expenditures under \$250,000. This direction would give the CAO authority to reject and delete any submissions that do not meet this criteria. The total amount to be recommended by the CAO will be set after budget submissions are received and fund balance projections are more reliable.

PARS

On Sept. 15, 2015, the Board approved a PARS Pension Rate Stabilization Program (PRSP) in order to begin addressing the county's 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 UAL. The FY 2025-26 budget incorporated an annual departmental contribution to PARS equal to 2% of salaries budgeted at a total of \$3.2 million for all county departments. As of the December statement, the trust has a market balance of \$17.2 million. 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, and staff recommend continuing PARS contributions at the 2% level.

Deferred Maintenance

Given the one-time nature of fund balance and the continued degradation of county facilities, staff recommend resuming contributions in FY 2026-27 as a measure of investing one-time funds into purposes of improving the county's fiscal sustainability. CAO and Public Works staff continue to have quarterly meetings to review projects, identify opportunities to utilize deferred maintenance funds and work on a deferred maintenance plan.

The Board-adopted Deferred Maintenance Policy sets the annual Deferred Maintenance contribution based on 2% of the total deferred facility maintenance identified in the 2008 Facilities Master Plan, \$28.7 million, annually adjusted by CPI beginning in FY 2019-20. Staff estimate this will be roughly \$750,000.

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 2025-26, the Board approved transferring \$2 million to the General Fund from the Tax Loss Reserve fund. Based on the current estimated additional fund balance and financial conditions, staff recommends that \$2 million be

transferred to the General Fund for FY 2026-27 if the minimum reserve is maintained.

General Reserve

The General Reserve policy has set a minimum 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 GFOA recommended level of 16%. For this current budget cycle, this minimum funding level of 10% is \$16.5 million. The Board made a substantial contribution in FY 2024-25 and FY 2025-26 in the amount of \$3 million each year. With the FY 2025-26 contribution the balance of the General Reserve is \$16.6 million, just over the minimum funding level. It is recommended that your Board consider budgeting a contribution to the General Reserve in the amount of \$3 million again to continue to improve the county's fiscal sustainability and work toward the recommended funding level of 16%. These contributions will allow the county to be better positioned for issuing debt in the future or to weather uncertain fiscal times.

Increase the Self-Insured Retention (SIR)

A Self-Insured Retention (SIR) functions similarly to a deductible in a personal auto insurance policy. It represents the dollar amount the county is responsible for paying on a liability claim before excess insurance coverage applies. By retaining responsibility for losses below the SIR threshold, the county assumes a measured level of risk while reducing its reliance on the commercial insurance market. This approach allows local governments to better manage volatility in insurance premiums by self-funding lower severity claims and reserving insurance coverage for catastrophic losses.

An analysis of the county's liability paid claims over the most recent five-year period (July 1, 2019, through June 30, 2024) shows a total of 113 paid claims. Of these:

- 89 claims (79%) were under \$50,000
- 18 claims (16%) were between \$50,000 and \$300,000
- 6 claims (5%) exceeded the current SIR level of \$300,000

Based on this experience, the county has averaged approximately 1.2 claims per year that exceed the current SIR threshold. If this trend continues, increasing the SIR could result in an estimated additional annual cost of approximately \$120,000 in retained losses. However, this increased risk retention is projected to generate approximately \$600,000 in annual premium savings, resulting in a net anticipated savings of roughly \$480,000 per year.

SIR recommendations are developed using historical loss data and observed utilization trends. While this information provides a reasonable basis for decision-making, it is important to acknowledge that loss experience is inherently variable, and historical results do not guarantee similar outcomes in future policy periods. Accordingly, any increase in the SIR should be paired with ongoing monitoring of claims activity and reserve adequacy to ensure the county continues to balance fiscal stability with prudent risk management. The county previously had a \$500,000 SIR which is more in line with similar

-sized counties in comparison to other government entities with a budget as large. Staff recommend increasing the SIR to realize the anticipated premium savings.

Section 4: Budget & Fee Update Calendar

The proposed calendar for county budget development (Attachment 2) provides for final adoption of the budget on June 23, 2026. The intent is to allow for adoption of the budget before the beginning of the next fiscal year.

The calendar for FY 2026-27 includes Measure Z Citizen's Advisory Committee Meetings for consideration of FY 2026-27 Measure Z applications.

SOURCE OF FUNDING:

All county funds

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.

OTHER AGENCY INVOLVEMENT:

None

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion.

ATTACHMENTS:

1. FY 2025-26 Mid-Year Budget Adjustments
2. FY 2026-27 Budget Calendar with Measure Z

PREVIOUS ACTION/REFERRAL:

Meeting of: 6/24/2025, 12/16/2025

File No.: 25-772, 25-1334