



COUNTY OF HUMBOLDT

AGENDA ITEM NO.

I-1

For the meeting of: May 2, 2017

Date: April 17, 2017

To: Board of Supervisors

From: Amy S. Nilsen, County Administrative Officer *AS*

Subject: Third-Quarter Budget Review for Fiscal Year 2016-17, Updated Outlook for Fiscal Year 2017-18, and Recommendations for Budget Adjustments (4/5 Vote Required)

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive and file a review of the third-quarter budget results for Fiscal Year (FY) 2016-17 and outlook for the FY 2017-18 budget;
2. Review the recommendations from the Measure Z Citizen's Advisory Committee contained in Attachment I and provide direction on which Measure Z requests detailed on Attachment II to fund for FY 2017-18;
3. Approve carrying forward FY 2016-17 allocations into FY 2017-18 totaling \$1,463,980 as detailed on page 4;
4. Direct staff regarding the policy considerations beginning on page 9 of this report, as follows:
 - a. Approve funding Additional Requests for General Fund Appropriation contained in Attachment III that are either: mandated projects/services; support the intent of Measure S; one-time in nature; and/or prevent the discontinuation of services;
 - b. Approve setting Contingencies and the General Reserves below policy levels; and
 - c. Approve a loan from the General Fund in the amount of \$85,385 for the McKay

Prepared by Elishia Hayes, Senior Administrative Analyst

CAO Approval *AS*

REVIEW: Auditor _____ County Counsel _____ Human Resources _____ Other _____

TYPE OF ITEM:

_____ Consent

X Departmental

_____ Public Hearing

_____ Other _____

BOARD OF SUPERVISORS, COUNTY OF HUMBOLDT

Upon motion of Supervisor

Seconded by Supervisor

And unanimously carried by those members present,

The Board hereby adopts the recommended action contained in this report.

SEE ACTION SUMMARY

PREVIOUS ACTION/REFERRAL:

Board Order No. C-9, H-1, D-15, C-10, C-27, H-1, I-2, C-16, I-2

Meeting of: 8/25/15, 2/9/16, 4/19/16, 6/28/16, 9/20/16, 11/15/16, 2/7/17, 4/18/17

Dated: _____
Kathy Hayes, Clerk of the Board

By: _____

Community Forest;

5. Approve the budget adjustments shown on Attachment IV, and authorize County Administrative Office (CAO) staff to make any technical corrections necessary to effectuate the Board's direction (4/5 vote required); and
6. Take other action as appropriate.

SOURCE OF FUNDING: All county funds

DISCUSSION:

The CAO provides quarterly budget reviews to your Board in order to provide periodic informational updates and seek guidance from your Board. The CAO has provided your Board with first-quarter and mid-year reviews of the county's budget performance. Before your Board today is the third-quarter budget review for FY 2016-17 and projection for FY 2017-18.

This report has been divided into four sections: review of the county financial condition as of March 31, 2017; a brief overview of factors that may impact FY 2017-18; a list of policy items that staff recommends your Board consider in light of the county's current and/or projected financial condition; and recommended budget adjustments, offset by increased revenues, brought to your Board on behalf of county departments.

Section 1: Review of Third-Quarter for Fiscal Year 2016-17

This review covers the General Fund and funds with negative balances. Other funds not mentioned have had no significant changes since the mid-year report to your Board and staff anticipates those funds to be within allocated budgets barring any significant changes from March 31, 2017 to year-end.

1100 – General Fund

The General Fund contains the majority of county programs. This fund receives discretionary money derived from local revenue sources such as property tax and is available to be spent on local needs. The mid-year budget review presented to the Board on February 7, 2017, reported that General Fund expenditures and revenues were primarily on track for FY 2016-17. Reports from departments for the third-quarter indicate that this trend continues as reported.

The General Fund began FY 2016-17 with a positive fund balance of \$11.2 million. The FY 2016-17 budget was adopted with a \$4.92 million planned spend-down of this balance. Contained in the first-quarter and mid-year budget reports was the use of an additional \$1.81 million in fund balance for various expenditures. These additional costs were primarily for one-time investments in contributions to capital projects for Americans with Disability Act (ADA) U.S. Department of Justice 2016 Consent Decree mandates, the Public Agency Retirement Services (PARS) Post-Employment Benefit Trust Program and a contribution to General Reserve for FY 2017-18. This increased the use of fund balance in the General Fund to \$6.7 million.

As reported at the mid-year budget review, estimates indicate that Proposition (Prop) 172 revenues will be \$1.26 million less than budgeted. This will impact the Sheriff, District Attorney, Probation and Public Defender budgets. These revenue losses have been offset by revenue gains and expenditure savings, such as salary savings or reduced professional service needs, by other county departments.

County Counsel estimates additional revenue of \$258,080 for fees associated with cannabis permitting, the Recorder's Office estimates additional revenue totaling \$283,843 for recordable document fees, Natural Resources will reimburse the General Fund \$258,953 for prior year revenue and General Relief estimates a reduction in expenditures of \$252,277 as assistance payments are lower than anticipated.

General Fund net costs through June 30, 2017 depict expenditures exceeding revenues by \$4.48 million instead of \$6.7 million as identified at mid-year. This revised fund balance estimate is due to the following revenue and expenditure adjustments that have taken place in the last quarter:

- \$1.3 million in unspent contingencies;
- \$100,026 in additional Measure Z Revenue;
- \$252,277 in lower General Relief costs due to a reduction in assistance payments;
- \$879,599 in a combined reduction in net county costs by all other General Fund departments;
- (\$238,314) of additional Measure Z expenditures; and
- In addition, there is a recommendation contained in the budget adjustments section of this report totaling (\$130,903) in additional expenditures.

This will leave the General Fund with an estimated year-end fund balance of \$6.7 million, as shown in the FY 2016-17 Fund Balance Table. This table shows the budget adjustments that have taken place over the course of FY 2016-17. The adopted budget reflected a use of fund balance of \$4.92 million, estimates now indicate a revised estimate of \$4.48 million. This reduction in the use of fund balance has occurred because revenues have increased by \$2.18 million with offsetting expenditures of \$1.75 million, allowing for a reduction in the use of fund balance.

While it is estimated that the year-end fund balance will be \$6.7 million, staff recommends carrying forward Board approved allocations of \$1.46 million from unexpended allocations approved in FY 2016-17 to FY 2017-18. These expenses will not occur in FY 2016-17.

FY 2016-17 Fund Balance Table

1100 - General Fund	
FY 2015-16 Year-End Fund Balance	11,224,480
FY 2016-17 Adopted Revenue	118,017,810
Additional Measure Z revenue	370,026
Additional discretionary property, sales and other tax revenue	1,814,826
	<u>2,184,852</u>
FY 2016-17 Adopted Expenditures	(122,932,981)
Board approved expenditure adjustments	(2,941,271)
Board approved Measure Z expenditures - 9/6/16, 1st Qtr, mid-year	(1,405,520)
Unused Measure Z	646,660
Unused Contingencies	1,354,394
Recommended additional 3rd quarter expenses	(130,903)
Expenditures (over)/under budget	726,253
	<u>(1,750,387)</u>
Net Costs	(4,480,706)
Estimated FY 2016-17 Year-End Fund Balance	\$ 6,743,774
**\$726,686 of fund balance includes Measure Z	
Measure Z carry forward	(280,000)
Measure Z earmarked for alcohol and drug treatment services	(335,000)
General Fund Cannabis Tax earmarked for EIR	(498,980)
General Reserve	(350,000)
Estimated FY 17-18 Available Fund Balance	\$ 5,279,794
**\$211,686 of the available discretionary fund balance is Measure Z	

Staff recommends carrying forward the following Measure Z funds:

- \$55,000 for a needs evaluation of the county's radio system;
- \$50,000 for the relocation of county services to create an additional courtroom;
- \$175,000 for the purchase of a rescue and recovery vehicle for the Sheriff's Office; and
- \$335,000 of funding earmarked for alcohol and drug treatment services.

In addition, staff recommends carrying forward the following General Fund allocations:

- \$498,980 for a cannabis cultivation Environmental Impact Report (EIR); and
- \$350,000 that was allocated to Contingencies in FY 2016-17 to be carried forward for a contribution to the General Reserve in FY 2017-18.

This would leave an estimated fund balance available for allocation in FY 2017-18 of \$5.2 million.

The CAO 2017 Five-year Financial Forecast (Forecast) estimated a year-end fund balance for FY 2016-17 of \$4.8 million. The difference in estimated fund balance between the Forecast and third-quarter report is approximately \$442,000. This difference is primarily attributed to an additional \$371,980 of unanticipated revenue received in FY 2016-17 from Measure S, the voter-approved cannabis cultivation tax passed in November, which was not included in the Forecast.

Health & Human Services Funds

The Department of Health and Human Services (DHHS) administers six budgeted funds. DHHS began this FY with an overall departmental fund balance of \$14 million. As identified by the department, the Mental Health fund anticipates expenditures exceeding revenues by \$202,632. This shortfall will result in a negative balance of (\$3.6 million) in the Mental Health fund at the end of the FY. Sempervirens Psychiatric Health Facility continues to experience a high percentage of non-reimbursable patient costs and increasingly high costs associated with treating the severely mentally ill. DHHS is working to address these issues and is looking at other long-term restructuring strategies to help reduce the deficit. In addition, the Alcohol & Other Drugs fund (AOD) anticipates expenditures exceeding revenues by \$93,231. This shortfall will result in a negative fund balance of (\$653,610). AOD and Healthy Moms programs are in the process of reviewing claim procedures with the expectation that this deficit may be reduced by year-end. Other funds, which include Public Health and Social Services, estimate no significant change in fund balance. The overall estimated ending fund balance for DHHS is \$13.7 million.

1500 – Library Fund

The Library anticipates that expenses will exceed revenues by \$47,507 for the current FY, leaving an estimated year-end fund balance of \$292,413. This is better than the estimated draw down of \$249,538 in fund balance that was included in the adopted Library budget. This positive financial news is the result of salary savings and unanticipated Erate revenues of \$100,282. The Erate program provides discounts to assist libraries in obtaining affordable telecommunications and internet access.

3530 – Aviation Enterprise Fund

The Aviation Enterprise Fund began FY 2016-17 year with a negative fund balance of (\$545,273). The department estimates that revenues will exceed expenditures by \$218,454, reducing the negative fund balance to (\$326,819). A primary factor in reducing the negative fund balance is due to Measure Z funding. As noted in the Financial Forecast, when Measure Z sunsets in 2020 and the Aviation Enterprise Fund no longer receives the support of the General Fund, it is anticipated that a structural deficit will occur. The county remains committed to maintaining a regional airport that offers

commercial air service and will continue to research solutions to ensure Aviation’s long-term sustainability.

Section 2: Budget Outlook for Fiscal Year 2017-18

As your Board directs county staff to prepare the proposed budget for next FY, consideration will be paid both to the financial position of the county and the potential effects of other factors, such as legislative changes made at the state or federal level, or expenses incurred to remain in compliance with the 2016 ADA consent decree mandates.

The County Budget

On February 7, 2017, your Board set FY 2017-18 departmental allocations from the General Fund to increase by 6 percent based on current year General Fund allocations. This allocation was intended to cover increased costs for departments as well as begin to eliminate the gap between revenues and expenditures in the General Fund and move towards a balanced budget.

The estimated expenditures for General Fund departments in FY 2017-18 is \$59,413,490 and estimated revenues are \$59,318,761, therefore expenditures exceeded revenues by \$94,729. This is an improvement over the \$1 million deficit in the FY 2016-17 adopted budget and the projected \$1.8 million deficit

FY 2017-18 Fund Balance Table

Estimated available year-end fund balance for FY 2016-17	5,270,688
Estimated Discretionary Revenue for FY 2017-18	59,318,761
Estimated Expenditures for FY 2017-18	(59,413,490)
Estimated year-end fund balance for FY 2017-18	<u>5,175,959</u>

in the Forecast. The anticipated improved financial position is in large part due to additional Measure S revenue estimated to be \$2.2 million in FY 2017-18. In addition, this budget projection does not include any additional funding requests, contributions to ADA or funding for deferred maintenance. The FY 2017-18 Fund Balance is an estimated to be \$5.1 million. These numbers will likely be adjusted as staff continues to work on next year’s proposed budget.

Budget Impacts

Commercial Cannabis Cultivation

Revenues generated from Measure S, the local commercial cannabis cultivation tax passed in November, are intended to maintain and improve essential services, such as crime investigation, mental health services for children and families, and environmental clean-up. Revenue estimates from the cannabis excise tax in FY 2017-18 are \$2.2 million. Legally, the county is only able to tax cultivation sites that are permitted locally. The permit process can be slow. There are other agencies and entities involved in the approval process, such as the State Water Resources Control Board, in order to ensure that environmental and water regulations are being met. Therefore, the county continues to foster and maintain these relationships with outside agencies in an effort to efficiently and effectively manage the permitting process. As the permitting process continues and issues are addressed, there could be delays or setbacks that impact both the number of estimated permits to be issued, and projected revenues. Staff will continue to update the Board through the quarterly budget reports as more information becomes available.

Uncertainty at the Federal Level

As reported from the California State Association of Counties, the Trump Administration has published a list of suggested cuts that could be used to partially offset recent federal fiscal year (FFY) 2017 supplemental spending requests. The President is asking Congress to approve \$18 billion in current-year spending reductions to help pay for \$30 billion in new defense and border security funding. The impacts of such a budget proposal would substantially reduce and/or possibly eliminate FFY 2017 funding for programs that are important to California's counties. If the programs were completely eliminated, revenue reductions as high as \$7.4 million could be experienced.

- State Criminal Alien Assistance Program (\$3,500)
- Payments-in-Lieu-of-Taxes (PILT) (\$824,414)
- Community Development Block Grants (\$2.7 million)
- Economic Development Assistance grants (\$1.5 million)
- Pre-Disaster Mitigation Grants (\$58,470)
- Mental Health Block Grants (\$566,369)
- Women Infants and Children Feeding Program (\$1.8 million)

Senate Bill 863 - Humboldt Community Corrections Re-Entry Resource Center

On August 25, 2015, your Board adopted Resolution No. 15-89, which resulted in receiving a grant award from the Board of State and Community Corrections, as allowed in Senate Bill 863, to build and operate an adult criminal justice facility. This planned facility is known locally as the Humboldt Community Corrections Re-Entry Resource Center. On September 20, 2016, your Board authorized the Director of Public Works to enter an agreement with an architectural firm for professional design services relating to the construction project in the amount of \$1,810,000. There are, however, indications that a cost shortfall in the range of \$400,000-\$500,000 may result in an increase to the county's cash commitment or, if the deficit is not addressed, a reduction in building size and program delivery scope. In addition, by accepting these state grant funds, the county is committed to adding approximately 20 correctional officers, at an estimated cost of \$1.3 million to the General Fund per fiscal year. Staff will continue to update the Board through the quarterly budget reports as more information becomes available.

Deferred Maintenance

The County of Humboldt currently has an estimated inventory of over 300 public facilities, which include three detention centers (one adult & two juvenile), six airports and 16 parks. In the past, during difficult economic times, the county deferred maintenance to future years for many of the county-owned facilities. The future years have caught up to the county, as it now faces the need to plan for capital outlays in order to tackle estimates in excess of \$200 million in deferred maintenance. In order to maintain aging facilities for the health and safety of the public and staff, an allocation to deferred maintenance may be necessary.

Measure Z Requests for FY 2017-18

During the mid-year review on February 9, 2016, DHHS was awarded partial funding for their application submitted in FY 2015-16 to increase rural child welfare/protection services, mental health and substance abuse treatment, and public health services. This project would allow Child Welfare Services (CWS) Social Workers to adequately protect and provide in-home services to the children and families of Humboldt County. The total application request was for \$1,003,139. Your Board allocated \$532,926 for the CWS project. In FY 2015-16, DHHS only expended \$1,576 of this funding. The unused balance was rolled forward to fund other Measure Z projects in FY 2016-17. In FY 2016-17, the same allocation of \$532,926 was approved through budget adoption. DHHS estimates that \$349,693 of this funding will be expended by year-end.

In FY 2017-18, an allocation of \$562,802 will be recommended to fund DHHS Measure Z. As this project has come to fruition, DHHS has discovered that client engagement and substance use disorder services intended for this project are not eligible for federal reimbursement. As such, the DHHS implementation team has recognized that there are significant needs for space, equipment, transportation and communications for staff to effectively provide services to the outlying regions. Also, essential to the effectiveness of service and engagement are professional services for cultural responsiveness and alcohol and drug recovery. These expenditures were not fully realized in the development of the Measure Z budget and has left DHHS without the ability to provide these services. Therefore, DHHS is requesting an increase in their Measure Z allocation for FY 2017-18 in the amount of \$182,900. DHHS's original Measure Z application and request for increased funding are included as Attachment V for your Board's consideration when determining the Measure Z projects to fund in FY 2017-18.

The Citizens' Advisory Committee on Measure Z expenditures is tasked with receiving public input and recommending projects, programs or activities to be funded by your Board. In total, 43 applications totaling \$11,038,920 were received from various county departments and outside agencies. The committee held five meetings to receive public input, solicit additional information from the applicants, and to discuss the various proposals. The committee reviewed and considered all of the applications and sorted them into "must", "need" and "nice" categories. The committee's letter of recommendation containing the two priority lists is included as Attachment I for your Board's consideration. The first list is primarily from the "must" category. The secondary list is for consideration during the FY 2017-18 mid-year budget review should there be additional funds available for allocation.

An itemized list detailing all of the applications received along with a copy of the applications are included as Attachment II. At the Citizen's Advisory Committee meeting of March 16, 2017, discussions took place amongst committee members regarding Board actions to fund activities that were beyond the scope of the original funding applications. As such, the committee drafted a letter to your Board on March 23, 2017 and requested that CAO staff include the letter with the Third- Quarter Budget report (Attachment VI). In addition, all letters of support for various funding applications are contained in Attachment VII.

Through the process of preparing the committee's letter of recommendations, a number of projects were recommended for partial funding in an effort to provide funding for as many projects as possible. The committee consulted with the applicants to get an idea on the funding requests that could be reduced while still maintaining the integrity of the project. Many applicants willingly offered suggestions on reductions that could be made to their applications. The Sheriff's applications were included in that process and input was received regarding high-priority projects, such as additional staffing and a Snowcat rescue vehicle, while projects, such as the radio system needs evaluation, with low priority were removed from the committee's recommendations. However, upon reconsideration, the Sheriff's Office decided that an evaluation of radio connectivity is of the highest priority in order to ensure that emergency personnel have radio capabilities while responding to remote areas of the county. Staff requests that your Board consider funding the Sheriff's application to complete a radio system needs evaluation in lieu of a Snowcat rescue and recovery vehicle.

Based on information received from departments, it is estimated that there will be \$826,686 in unspent Measure Z funds from FY 2016-17 to be carried forward. Of this balance, \$280,000 is recommended as carry-forward for use in FY 2017-18 as discussed on page 4. All of these expenses were allocated in

FY 2016-17 by your Board, however due to unforeseen circumstances, the projects were not able to be completed.

In addition to these carry-forward expenses, your Board has earmarked \$335,000 to be used for alcohol and drug treatment services. During the mid-year budget review, your Board approved a request for the Probation Department to utilize these earmarked funds as matching dollars on a grant application for rehabilitative programs that offer substance-use disorder treatment, mental health services and diversion opportunities, in conjunction with housing and job-skills training. This grant application required the coordination of many different community partners in order to be competitive in the grant approval process. The Probation Department was unable to coordinate all of the necessary pieces and did not submit the application for grant funding. Therefore, the earmarked funding of \$335,000 remains available for alcohol and drug treatment services.

The committee's primary list recommends 14 applications totaling \$4.4 million, in addition there is an estimated \$6.6 million in on-going expenses. As shown in the FY 2017-18 Measure Z Fund Balance Table, if your Board approves the Measure Z carry forward and follows the committee recommendations, \$220,496 remains available for allocation in FY 2017-18 to additional Measure Z

FY 2017-18 Measure Z Balance Table

Estimated Year-End Balance for FY 2016-17	\$ 826,686
Radio system study carry forward	(55,000)
Additional courtroom carry forward	(50,000)
Bearcat carry forward	(175,000)
Earmarked for alcohol and drug treatment issues	(335,000)
Estimated Available Balance for FY 2017-18	\$ 211,686
Estimated Discretionary Revenue for FY 2017-18	11,090,596
Estimated Expenditures on-going	(6,607,971)
Citizens' Advisory Committee Recommendations	(4,473,815)
Estimated balance to allocate in FY 2017-18	\$ 220,496

projects. Staff is requesting direction from your Board on which Measure Z requests to include in the FY 2017-18 proposed budget.

Community Budget Meeting

The CAO and your Board held four budget roadshow meetings this year in locations throughout the county. These meetings focused primarily on Measure S and afforded the community an opportunity to ask questions and provide feedback. Your Board reviewed this feedback on April 18. The questions, responses and other comments are available on the county website through the Community Budget Meeting webpage. In addition, the community was able to provide feedback via Open Humboldt, an online forum that gives citizens an opportunity to provide additional recommendations and comments on the county's budget and services. A supplemental funding request totaling \$5,075 will be submitted for funding in FY 2017-18 to allow for a 2018 Budget Roadshow to take place next year.

The Economy

Humboldt State University's Economic Index for March 2017 reports that retail sales fell by 3.2 percent and home sales remained steady over the last month, while the hospitality index fell by 11.2 percent. Local building permits remained the same over the previous month, and manufacturing orders have increased by one percent. Mortgage rates have ticked up over the previous year with the average 30-year fixed rate mortgage at 4.14 percent (3.75 percent at this point last year) and the average 15-year fixed rate mortgage increasing to 3.39 percent (2.98 percent in March 2016). Overall the local economy looks better than it did a year ago.

According to the Spring 2017 report produced by Beacon Economics, the economy is picking up momentum but the policy uncertainties created by the President's Administration are leading to economic uncertainty. The report states that job growth is steady but slow, and the Administration's desire to pursue a travel ban, along with its hardline positions on trade have significant implications for many parts of the state's economy. Housing is mixed due to rising wages, rising interest rates, prices and lending requirements. Credit continues to expand and California generally tracked the national economy throughout 2016. Possible issues to look out for are housing affordability, long-run water problems, and neglected infrastructure maintenance. Overall the message was that the economy should grow throughout 2017, but there is much uncertainty ahead.

State and Federal Budgets

State Controller Betty T. Yee's February 2017 report covering California's cash balance, receipts and disbursements shows the state's General Fund is lacking, coming in \$888 million lower for the first eight months than expected in the Governor's proposed budget. The state also ended March with unused borrowable resources of \$27.44 billion, which was \$3.27 billion more than anticipated in the proposed budget.

On the federal level, three bipartisan congressional "Dear Colleague" letters in support of the PILT were finalized. Last year, Congress approved \$452 million in FY 2016 discretionary spending for the PILT program. If fully funded in 2017, the program is expected to total \$480 million. Past federal budgets acknowledged that a long-term sustainable funding solution for PILT must be developed. If PILT is not funded, the county's General Fund will lose this discretionary source of revenue that is about \$824,000 annually.

Section 3: Policy Considerations

Additional Funding Requests for FY 2017-18

On February 7, 2017, your Board directed the CAO to gather additional General Fund appropriation requests for Board consideration that demonstrate potential to generate future savings in the General Fund, and/or support the intent of Measure S. Departments have submitted a total of \$4.6 million in additional funding requests, \$3.9 million for one-time requests, and \$781,929 for on-going funding.

Revenues are close to equaling expenditures for FY 2017-18; however, this does not include funding to address mandated ADA accessibility issues, deferred maintenance needs, or expenditures that support the intent of Measure S. Now that budget submittals and revised year-end estimates have been received from departments, the CAO recommends using a combination of fund balance and increased revenues for additional funding requests. Based on the estimated ending fund balance for the General Fund, it is recommended that \$2.2 million be used for additional funding requests that are either: mandated projects/services; support the intent of Measure S; one-time in nature; and/or prevent the discontinuation of services. A list of all submitted additional funding requests are located in Attachment III.

Mandated Programs/Services

Americans with Disabilities Act

In the summer of 2016, your Board entered into a consent decree with the Department of Justice (DOJ). The DOJ brought this action forward in order to enforce the county's compliance with Title II of the ADA of 1990. The consent decree contains many elements including accessibility for services, programs and activities that require modifications to facilities and roadways. Efforts are currently underway to meet consent decree timelines (spanning over a three year period) and requirements, such

as retaining the services of an independent licensed architect (ILA) and certifying that facility modifications meet current ADA standards. As the consent decree covers many of the county owned facilities where programs, service and activities are offered to the public, overall costs are unknown at this time but roughly estimated at several million, if not more, in improvements to facilities and infrastructure. Going forward, the recommendation will be for the county to commit financial resources to support the necessary staffing and required improvements in order to become compliant, as there are consequences of costly fines and penalties that the DOJ may impose on the county if consent decree time frames and requirements are not met. Staff will continue to update the Board through the quarterly budget reports as more information becomes available.

2016 Certificate of Participation (COP) obligations

On April 19, 2016, your Board authorized a plan to finance county office space and capital improvement projects in the amount of \$5.59 million. These projects were originally approved on January 19, 2016. The list of projects consists of: Juvenile Hall Replacement \$2.1 million; Weights and Measures Building \$1.14 million; 1001 4th Street for Architectural and Engineering Services \$1.2 million; Fifth-floor of Courthouse Remodel \$900,000; Arcata/Eureka Airport Restaurant \$250,000. In addition, on April 18, 2017, your Board approved an additional \$594,035 in matching funds to be included in the finance plan for the Eureka Veterans Memorial Building. The \$594,035 is in addition to the \$5.59 million for a total of \$6.18 million. As projects included in the 2016 COP get underway, the county will need to budget an allocation of approximately \$250,000 annually for a fixed period (30-years).

Supports the Intent of Measure S

Community Priorities

With the assistance of a facilitator, community partners, county elected officials, department heads and representatives from various departments, during the month of March 2017 a total of four separate community budget roadshow workshops were held throughout the county. The purpose of the roadshow was to present an overall view of the state of the county and to solicit public input on community priorities for Measure S revenues. In addition, community members unable to attend the workshops had the opportunity to participate and express their opinions on where to allocate Measure S revenues online via Open Humboldt.

The ballot language for Measure S states that funding generated by the measure could be used for a variety of broad services. Through the input received, the following list of community priorities, in order of popularity as indicated by the voting percentage, was established:

1. Children and Family Mental Health Services (32.6%)
2. Other Services - housing and roads (15.9%)
3. Environmental Cleanup and Restoration (14.9%)
4. Drug Rehabilitation (12.7%)
5. Public Safety (10.1%)
6. Job Creation (9.1%)
7. Crime Investigation/prosecution (4.6%)

In addition, a popular theme expressed across all services was a desire to “return to source,” or ensure that the funds are expended proportionately in those regions of the county that are generating the majority of Measure S tax dollars.

Numerous request have been received from departments for supplemental funding for projects and/or services that support the intent of Measure S. Staff recommends that your Board consider the community priorities when allocating funding to the supplemental requests contained in Attachment III.

One-Time

Reserves

Pursuant to Board policy, the county's General Reserve should be between 8 and 10 percent of total General Fund revenues, or roughly \$10.6 million. The county's current General Reserve balance is \$2,322,737. Rebuilding reserve accounts is one of your Board's Six Key Goals for 2017. During the first-quarter budget report for FY 2016-17, your Board set aside \$350,000 in Contingencies for a contribution to the General Reserve in FY 2017-18.

The adopted budget included a General Fund Contingency Reserve of \$1,394,329, which is also much lower than the policy level of \$7.9 million. At this time, staff anticipates an increase in Contingencies to \$1.5 million. In light of the county's current fiscal situation, staff recommends setting both the General Reserve and Contingencies below policy levels. In addition, a supplemental funding request is contained in Attachment III requesting an allocation of \$150,000 as a contribution to the General Reserve in FY 2017-18.

Prevents the Discontinuation of Services

Library

Currently, the Humboldt County Library is facing challenges in terms of sustaining on-going operations. The Library in recent fiscal years has relied on fund balance to provide ongoing services and operations. The Library is developing a plan to regain financial stability and sustainability. One element of the plan includes leasing space to another county department. The plan, nevertheless, will take several years to yield significant results. In the meantime, the Library needs additional funding to prevent the depletion of their fund balance and prevent staff reductions through layoffs to lower operating costs.

Loan for McKay Community Forest

When the McKay Community Forest was established in August 2014, Public Works was directed by your Board to work with the CAO and Treasurer to evaluate loan options. Preliminary estimates are that a loan would be needed for approximately 30 years to finance cash flow until site improvements are completed and timber revenues increase to a sufficient level to cover costs. The budget for the McKay Community Forest in FY 2015-16 depicted a deficit, which resulted in the need for a loan from the General Fund. As this deficit continues to occur for FY 2017-18, the CAO recommends that a loan in the amount of \$85,382 be made from the General Fund to the Forest Resources and Recreation fund to cover the costs of the McKay Community Forest.

Section 4: Budget Adjustments

The CAO, during quarterly budget reports, frequently brings forward budget adjustments on behalf of departments. The budget adjustments before your Board today will be offset by increased revenues. The recommended FY 2016-17 adjustments totaling \$130,903 are detailed in Attachment III.

- \$39,621 (Contribution to Other Funds 1100199) – For a contribution to Economic Development, using funds from the dissolution of redevelopment, as approved by the Board on November 5, 2013. In a competitive grant market, having set-aside funds that can be utilized as matching dollars significantly increases the competitiveness of grant applications. This funding

is available through increased property tax revenue due to the dissolution of redevelopment agencies. This supplemental budget supports the Board's Strategic Framework by encouraging new local enterprise and ensuring proper operation of markets.

- \$65,282 (Contribution to Other Funds 1100199) – In 2014, the State Controller's Office audited Humboldt County's court revenues for the period from July 1, 2005 through June 30, 2013. The audit findings show that Humboldt County under-remitted \$225,405 to the State Treasurer. The county's portion of the audit finding totals \$93,282 while the remaining \$132,123 under remittance is the responsibility of the cities of Eureka, Arcata and Fortuna. The county will work with the cities to recoup these balances. Of the \$93,282 that is the counties responsibility, there is \$28,000 in the State Trust fund for balances collected by Revenue Recovery that can be utilized to offset the audit finding, bringing the total due to \$65,282. This funding is available through additional interest revenue. This request supports the Board's Strategic Framework by managing resources to ensure sustainability of services.
- \$52,000 (Cannabis Planning 1100268) – The Cannabis Planning Unit has incurred unexpected costs due to the necessity to hire armed security to safely handle a large influx of cash transactions during the initial cannabis permitting process. In addition, there was a need for additional office supplies to process incoming permit applications and establish permit files, and additional equipment needs to facilitate permit processing. Funding for this request is available through additional revenues generated from cannabis permit fees. This request supports the Board's Strategic Framework by enforcing laws and regulations, and encouraging new local enterprise.
- \$26,000 (Human Resources 1100130) – For unanticipated expenses associated with the recruitment of a Human Resources Director. This position is very specialized and plays an important role in risk mitigation, employee negotiations and personnel processes. A recruitment is necessary to attract the most qualified director possible by canvassing a wide range of potential candidates. This funding is available through additional sales tax revenue. This supports the Board's Strategic Framework by managing resources to ensure sustainability of services.
- \$28,103 (Facilities Maintenance 1100162) – To fill 4.0 FTE extra help facility maintenance positions for the remainder of the fiscal year to allow for adequate staffing to begin addressing the 2016 ADA consent decree mandates. This funding is available through additional interest revenue. This request supports the Board's Strategic Framework by protecting vulnerable populations and creating opportunities for improved safety and health.

FINANCIAL IMPACT:

The acceptance of today's report and approval of its recommendations will increase the overall county budget by \$130,903.

Today's recommendations support the Strategic Framework and Priorities for New Initiatives by providing community-appropriate levels of service and managing resources to ensure sustainability of services.

OTHER AGENCY INVOLVEMENT: None

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Your Board could choose to:

- a. Not approve carrying forward balances into FY 2017-18 previously approved in FY 2016-17;
- b. Not approve funding Additional Requests for General Fund Appropriation that are either: mandated projects/services; support the intent of Measure S; one-time in nature; and/or prevent the discontinuation of services;
- c. Either increase or decrease the contribution to the General Reserve and/or Contingencies;
- d. Not approve a loan from General Fund in the amount of \$85,385 for the McKay Community Forest; and/or
- e. Not approve the budget adjustments.

These alternatives are not recommended because maintaining contingencies and restoring reserves, carrying forward previously approved balances, allowing the McKay Community Forest loan and the budget adjustments are consistent with county policy and support the Board's Strategic Framework, Core Roles and Priorities for New Initiatives by managing resources to ensure sustainability of services.

ATTACHMENTS:

- I. Citizen's Advisory Committee Recommendations
- II. Measure Z Funding Requests and FY 2017-18 Measure Z Applications
- III. Additional Requests for General Fund Appropriation
- IV. Recommended Budget Adjustments
- V. DHHS FY 2015-16 Measure Z Application and Additional Funding Request
- VI. Citizen's Advisory Committee Letter to the Board of Supervisors
- VII. Measure Z Letters of Support