Humboldt County Facilities: Owning vs. Leasing

Released May 29, 2024

SUMMARY

The County of Humboldt pays close to $500,000 every month, nearly $6 million per year, to lease office space for employees throughout the County. Would the money be better spent in the long run by owning these facilities instead?

Over time the County of Humboldt's agencies have evolved to adjust to changing societal needs to provide services. The County currently leases more properties than they own. Fifty-three percent of the buildings used are leased, not owned. Long term leasing tends to be more expensive than building and owning facilities. The trend towards leasing has not been cost-effective for the citizens of Humboldt County.

The Humboldt County Civil Grand Jury investigated Humboldt County's practice of leasing properties rather than purchasing them. Whether leased or owned, consolidation of operations for increased efficiency is also a concern. Given the physical size of Humboldt County consolidation would be practical only in the City of Eureka. We limited our investigation to office space within the City of Eureka, which accounts for $450,000 of the monthly $500,000 lease payments. This path led us to the 2020 Humboldt County Facilities Master Plan which showed that more facilities are leased than owned by the County.[1] Most of the leased properties have been under lease for 25 years or more by the County. One of the larger Department of Health and Human Services properties, 929 Koster Street, has 30,669 square feet, accommodates 169 county workers, and has been leased for almost 50 years. The 2020 Facilities Master Plan calls for building and consolidating operations. Progress has been slow.

BACKGROUND

Humboldt County has about 136,000 residents that are dispersed in what is California's 14th largest county by area.[2]   Services are provided throughout the County, with most offices in the county seat, the City of Eureka. The County owns or leases almost 50 properties within the city limits.

---

[1] Humboldt County Facilities Master Plan (2020):
https://humboldtgov.org/DocumentCenter/View/87532/Humboldt-Facilities-Master-Plan?bidId=
[2] 2020 Census: https://data.census.gov/profile/Humboldt_County,_California?g=050XX00US06023

METHODOLOGY

The Humboldt County Civil Grand Jury examined County of Humboldt property management. We conducted interviews with employees of the Humboldt County Department of Public Works and surveyed space occupancy and utilization of county offices in Eureka.

Documents reviewed included:

- Humboldt County Facilities Master Plan (June 25, 2020)
- Individual lease documents and summary leasing documentation from the Humboldt County Department of Public Works
- Property ownership and other information from the Humboldt County Treasurer-Tax Assessors public website[3]
- Property tax information from the Humboldt County Treasurer-Tax Collectors public website[4]

DISCUSSION

The Department of Public Works manages the County of Humboldt's portfolio of leased real estate, with over 80 active leases county-wide for many different departments. The monthly payment for these leases is just over $556,000. Eight of the properties are 'net' leases for which the County pays the property taxes, not the property owner. This is not an uncommon leasing practice, but it does effectively add another $9,000 per month to the monthly total of $556,000. Not all of the leases are for office space; the County also leases specialized facilities such as communications towers and solid waste container sites. Looking solely at office space, the monthly leasing cost is just under $500,000.

Consolidation of Operations

Consolidating County operations into fewer buildings can lead to greater efficiencies. The County provides services to residents all over the county, so consolidation is not a viable option everywhere, but it is in Eureka, where the County operates in almost 50 different sites.

The Department of Health and Human Services (DHHS) occupies most of those sites. Operations could be consolidated, as DHHS did in the 2010's at the Humboldt Plaza, 2440 Sixth Street. DHHS moved several Children and Family Services units, the Nurse-Family Partnership, Child Welfare Services, and Safe Care offices from four different Eureka locations into the Humboldt Plaza. This is a good example of a consolidation that provides improved customer service. Residents can accomplish more in a single stop at a facility that is easily accessible by car or public transit.

[3] Humboldt County Assessor: https://humboldtgov.org/220/Assessor
[4] Humboldt County Treasurer-Tax Collector: https://humboldtgov.org/282/View-or-Pay-Property-Taxes-Online

From a customer perspective, consolidation could greatly reduce the amount of time and travel needed to receive County services. For example, for a building project someone might need to interact with both the Division of Planning and Building and the Division of Environmental Health, which are about two miles from each other. If these and other similarly related services were located in the same facility customer service would be improved.

Combining operations into fewer buildings would allow better communication and ease daily operations between agencies.

Ownership vs. Leasing

Owning rather than leasing facilities would be more cost-efficient for the County. The point at which owning becomes preferable to leasing will vary for individual properties, but it is widely accepted that the break-even point is seven years.[5] Leasing can be advantageous if the facility is needed for only a short time. Short-term examples include programs that will cease to operate soon, programs that will grow or shrink significantly, or programs that will need to physically relocate within the county. Few County operations fall into these categories.

Ownership would provide more efficient management of a property for the County. It would also allow possible subletting of excess capacity, becoming a source of income. Control can also simplify maintenance of the properties, although the County will have to start paying for the maintenance that was formerly included in the lease payments. Ownership is cost-effective in the long-term. It builds equity, facilities become assets, and costs are covered by converting expenditures from variable to fixed. Variable expenditures are dependent on the lease terms, so expenditures are not consistent. Fixed expenditures would be a known budgeted item that would ease the budget-planning process and allow the County to pay off a loan or bond. Many County property leases are well past the seven year break-even point, with at least one lease dating back to the 1970’s.

The County has at least two opportunities to build in the future. They are in the process of purchasing the property at 803 4th Street known as the Courthouse Union Gas Station. The County already owns the gravel lot to the north of the Humboldt County Correctional Facility; the plan to build a jail expansion and rehabilitation center on this lot was abandoned by the Board of Supervisors in April 2024.

Bonds

Additional land purchases and construction on any purchased land would be difficult given the County’s current budget situation. One way to achieve ownership/consolidation goals would be with bonds. General obligation bonds are backed by future property tax collection and are a common way that cities and counties fund capital improvement projects.

---

[5] Bespoke Commercial Real Estate: https://bespokecre.com/wp-content/uploads/2019/05/BSK-LeaseVsPurchase-12.18.pdf

Bonds require voter approval that might be easier to obtain if the public understands the similarities to purchasing a house. Just as most individuals take out a mortgage instead of paying cash for a house, the county needs to essentially get a 20-year loan to finance new buildings. As with the interest paid for a home mortgage, payments in the early years would primarily service the debt. With each passing year the county would gain equity in the purchased buildings, ultimately resulting in fully-owned buildings with only maintenance costs in the future.

Facilities Master Plan

The preference for ownership and consolidation has been expressed many times over the last few decades. The Humboldt County Facilities Master Plan (FMP) of 2020 is a comprehensive planning document developed by the County that identifies facility investment priorities. The FMP summarizes ownership status for County facilities. There are 80 leased properties and 72 owned properties.

The FMP includes eight potential projects, 13 renovations or remodels, and 20 demolitions or vacated locations. In the FMP the County has expressed a preference for ownership and consolidation. That preference is indicated directly in the Department of Health and Human Services section: "Investing in county-owned facilities will save money over a long-term perspective,"[6] and indirectly in the sections with specifications for new buildings.[7]

One of the FMP projects is the aging Clark Complex at H and Harris Streets. The Department of Public Works has a plan for the extensive renovation of the DHHS operations in that complex.[8]

We surveyed County of Humboldt Departments to determine the current, maximum, and planned occupancy numbers by individual facility in the City of Eureka. The survey showed insignificant pockets of possible availability in some facilities. The occupancy survey does not seem to show any potential for consolidation of operations using existing facilities.

CONCLUSION

Citizens will be better served when the County of Humboldt physically consolidates or combines the offices of programs that are currently widely dispersed within the City of Eureka. It will ease obtaining services by residents and it will lead to operational efficiencies when program staff are co-located.

Ownership of the buildings would become assets for the County. This would build equity and, in the long-term, reduce expenses.

---

[6] https://humboldtgov.org/DocumentCenter/View/87532/Humboldt-Facilities-Master-Plan?bidId= page 6
[7] Ibid, pages 12, 14, 16-19
[8] Humboldt County DHHS – Behavioral Health Sempervirens & Crisis Stabilization Unit Preliminary Facility Planning 02/22/2024: https://humboldtgov.org/documentcenter/view/125791

Consolidation will require the acquisition of new facilities. It would be more cost-effective if the County owned rather than leased these new buildings. Consolidation would enable the County to improve customer service.

The County has a Facilities Master Plan that calls for consolidation and recognizes that ownership is preferable to leasing. To that end, the County is purchasing property near the Courthouse for future use.

The Humboldt County Civil Grand Jury believes that the County should accelerate enactment of their plan to consolidate operations into owned facilities. The clock is ticking; $500,000 is spent every month to lease buildings.

FINDINGS

The Humboldt County Civil Grand Jury finds that:

F1: County of Humboldt facilities in Eureka are widely dispersed, with some departments occupying multiple buildings in multiple locations. This dispersion can result in less efficient county operations. **(R1)**

F2: County of Humboldt facilities in Eureka are widely dispersed, with some departments occupying multiple buildings in multiple locations. This dispersion can result in unnecessarily increased difficulty for citizens who are conducting business with the county. **(R1)**

F3: The County of Humboldt Facilities Master Plan from 2020 calls for consolidation of facilities throughout the County. However, the County has yet to meet most of these consolidation goals, which results in continued inefficient operations. **(R1)**

F4: Leasing facilities in the long-term is more costly than owning them. Leasing results in additional unnecessary expenses for the County of Humboldt. **(R2, R3)**

F5: Consolidation using currently leased buildings is not a viable option. Until consolidation is achieved, operations will continue to be inefficient, and residents will continue to be inconvenienced. **(R1)**

F6: The current budget situation that the County finds itself in is one of limited resources. Without existing funding, the County would have to use other avenues such as bonds to acquire and/or develop property. **(R2, R3)**

RECOMMENDATIONS

The Humboldt County Civil Grand Jury recommends that:

R1: By no later than March 31, 2025, the County of Humboldt update the Facilities Master Plan to incorporate achievable implementation goals. **(F1, F2, F3, F5)**

R2: By no later than July 1, 2025, the County of Humboldt evaluate funding alternatives, including but not limited to conducting a study into the practicality of floating a bond issue to fund future purchases. For funding recommendations see the wording below Recommendation #3. **(F4, F5, F6)**

R3: As funding becomes available, the County of Humboldt continue to accelerate their pursuit of consolidation by purchasing rather than leasing facilities. **(F4, F5)**

> **Funding Recommendation:** The Humboldt County Civil Grand Jury recommends that the Humboldt County Board of Supervisors fund the expenses listed in **R2** with existing appropriations in the **current** fiscal year. If current appropriations are not sufficient, the Grand Jury recommends that the Board of Supervisors, at its next earliest opportunity, pursue additional funding from an appropriate agency, including state or federal agencies.

RESPONSES

Pursuant to California Penal Code sections 933 and 933.05, each entity or individual named below must respond to the enumerated Findings and Recommendations within specific statutory guidelines.

Responses to Findings shall be either:

- The respondent agrees with the finding; or
- The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefor.

Responses to Recommendations shall be one of the following:

- The recommendation has been implemented, with a summary regarding the implemented action; or
- The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation; or

- The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency where applicable. This time frame shall not exceed six months from the date of the publication of the Grand Jury report; or
- The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor.

REQUIRED RESPONSE WITHIN 90 DAYS

The Humboldt County Board of Supervisors
(All findings, all recommendations)

INVITED RESPONSES

The Grand Jury also invites the following entities or individuals to respond.

Humboldt County Department of Health and Human Services
(F1, F2, F4)

Humboldt County Public Works Department
(F1, F2, F3, F4, F5) and (R1)

Responses are to be sent to:

The Honorable Judge Kelly L. Neel
Humboldt County Superior Court
825 5th Street, Eureka, CA 95501

The Humboldt County Civil Grand Jury
825 5th Street, Eureka, CA 95501

Reports issued by the Grand Jury do not identify individuals interviewed. Penal Code section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Grand Jury.