COUNTY OF HUMBOLDT

For the meeting of: 12/17/2024

File #: 24-1505

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

Vote Requirement: 4/5th

SUBJECT:
First Quarter Fiscal Year 2024-25 Budget Update (4/5 Vote Required)

RECOMMENDATION(S):
That the Board of Supervisors:
1. Receive a review of the Fiscal Year (FY) 2023-24 estimated ending balances, first quarter results for FY 2024-25 and an initial projection of the budget condition for FY 2025-26; and
2. Approve allocating unobligated American Rescue Plan Act (ARPA) funds in the amount of $36,600 to existing projects; and
3. Allocate 1.0 Full-Time Equivalent (FTE) Library Assistant I/II (Salary Range 338/348, Class 0157) in the Library Budget 1500-621; and
4. Allocate 1.0 FTE Senior Legal Secretary (Salary Range 389, Class 1140) in the Public Defender Budget 1100-219, allocate 1.0 FTE Senior Legal Secretary (Salary Range 389, Class 1140) in the Conflict Counsel Budget 1100-246, deallocate 1.0 FTE Administrative Analyst I/II (Salary Range 424/444, Class 0626) in the Public Defender Budget 1100-219 and deallocate 1.0 FTE Legal Office Services Supervisor (Salary Range 408, Class 1150) in the Conflict Counsel Budget 1100-246; and
5. Approve a General Fund contribution in FY 2024-25 to the Deferred Maintenance fund in the amount of $1,391,783 (4/5 Vote Required); and
6. Approve a General Fund contribution in FY 2024-25 to the General Reserve in the amount of $3,000,000 (4/5 Vote Required); and
7. Approve the list of budget adjustments shown on Attachments 1 and 2 (4/5 Vote Required), and authorize the County Administrative Office (CAO) to make any corrections necessary to effectuate the Board's direction including incorporating the recommendations above; and
8. Provide additional direction to staff as appropriate.

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

Area of Focus: Core Services/Other
Strategic Plan Category: 9999 - Core Services/Other

DISCUSSION:
The CAO provides quarterly budget reports to keep your Board and the public informed on the status of the county's finances and other factors that may influence that status going forward. As the Auditor-Controller's Office is still working to complete the FY 2022-23 financial audit and close FY 2023-24, there are transactions that could still be processed that will impact the fund balances provided in this report.

This report has been divided into three key sections:

1. An overview of the state and local economic conditions impacting the county;
2. A review of the FY 2023-24 year-end fund balances; and
3. An initial review of the FY 2024-25 budget results, recommended budget adjustments and a look ahead to the FY 2025-26 budget.

Economic Outlook

Looking to next year, there are a lot of unknowns, both politically and economically. The change in federal leadership could have significant impact on the economy and the county budget. It is not yet known how these changes will impact Humboldt County. The county may need to adapt quickly.

State Economy

At the state level, the county experienced significant budget cuts in the Governor's budget last year in which the state projected multi-year deficits and fiscal distress, staff await the January release of the Governor's budget. While the state budget has struggled, similar to the county, Beacon Economics reports positive news with steady income growth, a rebounding tourism sector, and solid GDP performance, driven largely by the tech industry. California's median household income remains higher than the national average, and despite rising unemployment, job growth continues, especially among younger workers entering the market.

However, California's minimum wage increases, exemplified by Proposition 32 which did not pass by a narrow margin, may lead to higher youth unemployment, as studies suggest that wages above a certain threshold worsen job prospects for younger workers. Additionally, rising costs of living and doing business, including high energy expenses and stringent regulations, have been shown to drive businesses away from California. California continues to struggle with unaffordable housing as a result of lack of housing supply which will continue to restrict economic growth.

Local Economy

Hdl Companies provides the county quarterly sales tax reporting. In April-June 2024, the county as a whole was down (1.9%) in sales tax receipts and the unincorporated area of the county was down (5.7%) over the same period in the prior year. The Bradley Burns sales tax and Proposition 172 public safety sales tax continue to struggle in the county. In contrast, Measure Z local sales tax, which has a different distribution methodology, was up 2.1% over the prior year.

Most industry sectors struggled during the period. The biggest decline was in auto-transportation receipts, which fell 6.2% due to high interest rates, tightened credit and increased insurance costs, despite improved inventory levels for dealerships. Building-construction receipts also decreased as high financing and mortgage costs deterred new projects, despite lower material prices. Retail sectors, including apparel, home furnishings and appliances, saw declines as shoppers gravitated towards lower-priced items from large retailers. Restaurants saw only a modest 0.7% increase, with foot traffic down due to higher minimum wages for certain eateries under AB 1228, pushing diners to opt for less expensive options. Some sectors, including online shopping and fuel stations, experienced mild growth.

Overall, revenue trends remain slightly lower than last year, with consumer spending forecasts weak for the remainder of 2024. Despite the Federal Reserve's recent rate cuts, consumers are cautious and less likely to increase spending until their financial conditions improve.

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. The new local sales tax is anticipated to bring in $24 million annually, with the first payments received by the county in July, 2025. In the coming months, staff will be developing the final processes for managing the funds. This is significant progress for the county and the ability to maintain county road infrastructure and draw down additional state and federal funds.

Review of Year-End Fund Balances for FY 2023-24

As previously stated, in reviewing the estimated year-end fund balances, it should be noted that the Auditor-Controller's Office is still in the process of auditing FY 2022-23 and closing FY 2023-24, so while staff believe these numbers are reliable, there is still the possibility of additional transactions posting which could impact fund balances.

1100 - General Fund

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

At the time of the FY 2024-25 Proposed Budget report, the FY 2023-24 year-end fund balance was projected to be $29.6 million, utilizing $9.1 million in General Fund balance for the year. The General Fund is now estimated to end last fiscal year with a fund balance of $42.8 million, a $13.2 million increase over the anticipated ending balance.

General Fund

	Estimated at the Proposed Budget	As of this report	**Change**
FY 2022-23 Ending Balance	$ 38,647,446	$ 38,341,482	**$ (305,964)**
FY 2023-24 Fund Balance Use	$ (9,062,188)	$ 4,491,837	**$ 13,554,025**
FY 2023-24 Ending Balance	$ 29,585,258	$ 42,833,319	**$ 13,248,061**

This positive financial news is largely the result of the following:

- $2.8 million unanticipated increase in cost plan revenues for central services charged to other county departments, primarily Department of Health and Human Services (DHHS), of which DHHS reports that $2.6 million was not claimable to their revenue sources. DHHS has submitted a request to the CAO for a contribution for these costs. (One-Time)
- $800,000 in unanticipated increase in interest revenues. (One-Time)
- $1.1 million in unanticipated prior year revenues, cancelled checks, and cannabis excise taxes. (One-Time)
- $1.1 million in unanticipated increased Transient Occupancy Taxes as a result of Measure J.
- $900,000 in unanticipated increases in other taxes including property tax and utilities, television, cable and radio franchise fees.
- $838,145 in prior year capital projects revenue as the capital projects budget used to be in the General Fund prior to FY 2023-24, however is now in the Capital Projects Fund. (One-Time)
- $312,583 in savings from unused General Fund Contingencies. (One-Time)
- $944,806 in Measure Z carryforward. (One-Time)
- $129,641 in General Fund carryforward. (One-Time)
- $432,531 in additional savings due to lower than anticipated General Relief assistance payments. (One-Time)
- $512,467 in expenditure savings in the Public Works' Facilities budget. (One-Time)
- $1.6 million in expenditure savings in the Probation department budgets. (One-Time)
- $1.7 million in combined expenditure savings across all other General Fund budget units. (One-Time)

While this is positive news for the General Fund’s ability to fund the current year and the upcoming FY 2025-26 budget, the county still faces an adopted structural budget deficit of $15.1 million for FY 2024-25. Of the $13.2 million in additional anticipated savings, $11.2 is one-time revenues and expenditure savings, so while this is helpful, it is still critical that the county continue to work to present a balanced budget in future FYs. During FY 2023-24 and FY 2024-25, staff recommended, and your Board elected not to make contributions to the General Reserve and Deferred Maintenance as would typically be done annually. Given the additional, one-time funds, staff recommend making up for 2 years of these contributions: $1,391,873 to Deferred Maintenance and $3 million to the General Reserve, respectively.

<u>Measure Z</u>
Measure Z revenues were $426,942 more than budgeted in FY 2023-24. Additionally, Measure Z funds had $1.1 million in expenditure savings in the county’s Measure Z allocations and $671,425 in savings from outside agencies, for a total expenditure savings of $1.8 million. The county department savings included:

- $200,000 in Public Defender savings due to the delay of purchasing the E-Defender software
- $633,660 in DHHS salaries, services and supplies
- $47,549 in District Attorney salaries
- $205,474 in Probation salaries, services and supplies
- $22,968 in Sheriff salaries, services and supplies
- $396,973 in Public Works salaries

This $1.8 million in expenditure savings includes carrying forward the $944,806 in funds to FY 2024-25 allocated to the following:

- $200,000 for E-Defender software for the Public Defender, this transaction was anticipated as carryforward in the FY 2024-25 budget
- $438,292 for fire expenditures, most of which has been ordered but not received for the Humboldt County Fire Chief’s Association (HCFCA)
- $306,514 for Public Works for a FY 2022-23 approved application for chip seal road repairs, this transaction was anticipated as carryforward in the FY 2024-25 adopted budget and approved by your Board.

During FY 2023-24, your Board took action to improve the Measure Z process including establishing a 3-year spending plan with fixed allocations for county departments and four outside agencies: City of Fortuna, Humboldt County Fire Chief’s Association, K’imaw Medical Center and Southern Trinity Area Rescue. The total spending plan is $12.5 million annually. Additionally, your Board created a reserve account and made an initial allocation of $864,000 and established that unspent funding or additional funding beyond anticipated revenues will not be allocated at the mid-year budget update, as was previous practice, and rather will be held to be utilized in the next year’s funding recommendations.

Based on the savings and carryforward, it is anticipated there will be approximately $1.2 million available to fund new applications in FY 2025-26 Measure Z application cycle.

General Fund and Measure Z

		General Fund		Measure Z		General Fund without Measure Z
FY 2023-24 Ending Balance	$	42,833,319	$	6,762,799	$	36,070,520
Carry forward	$	(1,074,447)	$	(944,806)	$	(129,641)
Available balance to fund future years	**$**	**41,758,872**	**$**	**5,817,993**	**$**	**35,940,879**

It is estimated that the General Fund had $41.7 million in available fund balance at the beginning of FY 2024-25, of which $5.8 million is Measure Z funds, resulting in $35.9 million of available General Fund balance for use in future fiscal years.

Health & Human Services Funds

DHHS administers six budgetary funds. All of the DHHS funds had combined expenditures and other financing uses of $262.9 million and revenues and other financing sources of $252.9 million for FY 2023-24. This resulted in an overall ending departmental fund balance deficit of ($16.3 million), an increase in negative fund balance by ($10.0 million) from the previous fiscal year. DHHS reports that this deficit is offset by $24.6 million in long-term receivables and $7.4 million in revenues held in state accounts, leaving a projected overall department-wide fund balance of positive $15.7 million. DHHS has typically maintained a positive fund balance overall, despite challenges in receiving reimbursements for Behavioral Health services. As DHHS funds are general funds, this negative overall fund balance results in negative interest apportionment, in turn reducing the positive interest to the county General Fund. In FY 2023-24, the county General Fund lost $664,863 in interest due to DHHS' negative fund balances.

DHHS Interest FY 2023-24		
1110	$	(119,216)
1160	$	(475,835)
1170	$	(410,373)
1175	$	238,080
1180	$	109,243
1190	$	(6,761)
Total	**$**	**(664,863)**

DHHS has been working to implement cost reductions through the hiring freeze, voluntary separation incentive program (VSIP), expenditure cuts and changes to the department's interdepartmental cost structures. DHHS receives a large portion of their funding from the state through 1991 and 2011 Realignment funds. DHHS Realignment projections for FY 2023-24 were projected at $72.8 million and actual payments received totaled $70.3 million, a difference of ($2.5 million) or (3.4%), primarily in Behavioral Health. The state has confirmed that there was an issue with the FY 2023-24 payments that resulted in some realignment base not being met which the state is working to correct. It is not clear how much that will impact Humboldt County at this time.

Fund 1160, Social Services Administration ended FY 2023-24 with negative ($13.1 million) in fund balance, an improvement in fund balance of $3.1 million from the prior year. DHHS - Social Services Branch (SSB) is primarily funded by state and federal funding sources in which they claim their costs for reimbursement on a quarterly basis. They have the opportunity to submit a revised claim 12 months later. This revised claim allows them to capture costs that were not previously included in the original claim for a variety of reasons, but typically due to late posting of the expenditures. As previously reported, the delays in expenditure posting, especially indirect expenditures such as the Cost Allocation Plan (CAP) and Internal Service Fund (ISF) charges in FYs prior to FY 2022-23 delayed reimbursement as DHHS-SSB was unable to claim many of these costs until their revised claims. DHHS -SSB reports estimated long-term receivables of $4.7 million for FY 2023-24 that will be received in FY 2024-25 or beyond. These receivables reduce the estimated fund balance to ($8.4 million). Additionally, DHHS-SSB has implemented the following expenditure reductions with expected future savings:

- Hiring freeze ($3.5 million)
- Expenditure reductions in Facilities and Information Services ($965,000)
- Changes to internal interdepartmental cost structures for claiming between branches ($1.4 million)

In addition, DHHS is reviewing and implementing operational efficiencies to produce savings including eliminating desk phones, consolidating administrative units, evaluating leases and reducing the footprint in leased facilities, reducing and eliminating contracts where possible and reviewing mail courier services. DHHS expects that it will be able to return the 1160 fund to the positive by FY 2028-

29.

DHHS - Behavioral Health (BH) ended FY 2023-24 with a negative fund balance of ($27.5 million), an increase in negative fund balance by ($18.4 million) from the previous FY. DHHS-BH has been plagued with challenges in receiving reimbursements in a timely manner. These delays are caused by the claims adjudication process which can take a few months to close and the cost report/settlement process that can take multiple FYs before full reimbursement is realized.

In FY 2023-24, the California Department of Health Care Services took proactive measures to improve the cost settlement timeline, by instituting payment reform through Cal-AIM. As with all new processes, there have been significant hiccups for the state and for the county which has delayed reimbursement, resulting in a much larger negative fund balance for Behavioral Health. As of FY 2023-24, DHHS-BH fund 1170 long-term receivables total an estimated $17.0 million. This total includes $11.9 million of actual receipts received between September and October 2024 and $5.1 million in cost report audits and cost settlement receivables from FY 2010-11 through FY 2022-23. The reason these receipts are so long outstanding is due to the state's lengthy cost settlement process. Additionally, DHHS-BH estimates that there are an additional $17 million in receivables that are held up with claims reimbursements through the state for FY 2023-24, though there are uncertainties about the amount based on the state reporting for this timeframe. Should all of these claims be cleared up it is anticipated that the negative fund balance would be resolved in fund 1170. Similar to DHHS-SSB, DHHS-BH is implementing expenditure reductions with the following estimated future savings:

- Hiring freeze ($3.1 million)
- Expenditure reductions in Facilities and Information Services ($461,000)
- Utilizing grant funds for new placements, previously funded through claims reimbursement which does not result in full funding ($1 million)

DHHS expects that it will be able to return the 1170 fund to the positive by FY 2028-29.

1120 - Economic Development Fund

The Economic Development fund ended FY 2023-24 with an estimated fund balance of $1.1 million, an increase of $354,138 over the prior year. Staff have previously reported that it is anticipated that the Economic Development fund balance will be negative once all state obligations have been met for Project Trellis. In anticipation of that, Economic Development has been implementing cost saving strategies including looking for opportunities to reduce facilities costs, holding on hiring a Director and ensuring that grants are fully being drawn down. In review of Economic Development funding sources, staff found that the Redevelopment Dissolution General Fund Contribution had a mistake in calculation. This contribution is for the administration of Headwaters which has contributed to the anticipated negative fund balance in 1120 and the negative fund balance in 3842 (EDA Set-Aside) from which Headwaters administration costs were previously paid. A contribution of $571,714 will be used to resolve the negative fund balance in 3842 and allow Economic Development to correct the FY 2024

-25 budget in fund 1120 which was underbudgeted due to lack of available fund balance. Staff recommend a General Fund contribution in the amount of $571,714 to rectify this error, as detailed below.

Economic Development RDA Contribution

Year	Contribution	Revised Contribution	Difference
FY 2014-15	-	51,853.97	51,853.97
FY 2015-16	-	69,531.62	69,531.62
FY 2016-17	-	62,838.10	62,838.10
FY 2017-18	-	69,356.77	69,356.77
FY 2018-19	66,394.00	51,169.91	(15,224.09)
FY 2019-20	69,357.00	126,815.32	57,458.32
FY 2020-21	89,058.00	127,671.66	38,613.66
FY 2021-22	91,478.00	130,105.43	38,627.43
FY 2022-23	91,500.00	139,225.98	47,725.98
FY 2023-24	84,023.00	184,326.66	100,303.66
FY 2024-25	91,000.00	141,629.01	50,629.01
	582,810.00	**1,154,524.44**	**571,714.44**

1200 - Roads Fund

The Roads fund ended FY 2023-24 with a negative fund balance of ($7.4 million), a slight increase in negative fund balance of ($36,156) from the prior year. This is an improvement of $1.1 million over what was estimated at the proposed budget. Despite this improvement and recognizing that there are significant outstanding reimbursements for disaster assistance, the Roads fund continues to struggle with funding necessary projects year over year. Staff continue to work with state and federal agencies to receive reimbursements, and your Board this year authored a letter to Congressional leaders requesting more funding for federal disasters. Public Works reported $3.0 million in long-term receivables to the Auditor-Controller for FY 2023-24. If fully collected, those receivables would improve the negative fund balance to ($4.4 million). Funding and constant natural disasters has been a constraint in the Roads fund for a number of years, resulting in the utilization of budgeted road maintenance funds for disaster responses. With the passage of Measure O, the Roads and 911 Emergency Response Measure, Public Works will be able to begin completing a backlog of road maintenance in a significant way.

1500 - Library Fund

The Library fund ended FY 2023-24 with a fund balance of $1.1 million, a decrease of ($47,895) from FY 2022-23. This is better than anticipated as the FY 2023-24 budget reflected expenditures exceeding revenues by $800,854. The reduction in the use of fund balance is due to higher than anticipated revenue collections primarily in property taxes and significant salary savings associated with numerous vacancies over the past year and the amount of time required to fill those positions.

Aviation Funds

The Aviation Enterprise fund 3530 ended FY 2023-24 with an estimated available fund balance of $970,863, a decrease of ($1.1 million) over the prior year. The Aviation Capital Projects fund 3539 ended FY 2023-24 with an estimated negative fund balance of ($4.9 million), an increase to the negative fund balance of ($2.3 million). The combined negative fund balance is ($3.9 million).

The primary cause of the negative fund balance in fund 3539 is the timing difference between when expenditures are incurred and when reimbursements are received through Federal Aviation Administration (FAA) grant funding. Additionally, the department is required to cover upfront expenditures for the planning phases of certain projects, which must be completed before the FAA will issue grants to fund them. Furthermore, for certain FAA grants, project closeout thresholds must be met before the final reimbursement can be processed. For example, the ACV Runway project is currently nearing closeout, with several open grants that have covered expenses already paid but are still awaiting reimbursement. Consequently, these reimbursements will be recorded in FY 2024-25, ultimately offsetting the negative fund balance. Aviation reports currently awaiting a Federal FY 2025 Bipartisan Infrastructure Law grant, expected to be received in November 2025, which will reimburse Aviation for all change orders related to the ACV Runway and Lighting System Rehabilitation project. This grant, applied for and confirmed by the FAA in the amount of $1,278,089, will allow the Department of Aviation to seek reimbursement immediately upon receipt. All associated expenses were initially paid during FY 2023-24. This would reduce the overall negative fund balance to ($2.7 million).

In contrast to some of the other funds, Aviation is focusing on revenue-generation opportunities to resolve its negative fund balance. Some of these opportunities include:

- Aviation property development
- Replacing parking lot pay booths with modern electronic payment and customer service communications systems which is anticipated to increase parking revenues by 200%
- Continuing to review hangar license agreements and bring them up to the current, approved fee schedule rates
- Reconciliation and future implementation of approved Passenger Facility Charge Program expected in FY 2025-26
- Exploring increasing collections of aircraft landing and parking fees at all airports

In coordination with the above, expenditure monitoring is being implemented such as limiting travel and closely monitoring services and supplies. Aviation expects to be on track with a focus on cost recovery to return to a positive fund balance, in all funds, by the end of FY 2026-27, provided that strategic decisions around revenue-generation continue to be implemented.

1720 - North Coast Resource Partnership Fund

The North Coast Resource Partnership fund ended FY 2023-24 with a negative fund balance of ($584,024), an increase in the negative fund balance of ($335,491) from the prior year. This is worse than anticipated at the proposed budget reflected which anticipated no increase in negative fund balance. Public Works' Natural Resources reports that there has been an ongoing fund balance deficit in the amount of $220,000 due to not achieving full expenditure reimbursement from grant sources for several years after fund creation. Since that time, staff have established an improved process for cost recovery. Public Works reported $745,605 in long-term receivables to the Auditor-Controller for FY 2023-24 for fund 1720. Once fully collected, those receivables would fully resolve the negative fund balance.

Internal Service Funds

The county has 14 ISF's that provide for services to other county departments including: Motor Pool; Heavy Equipment; Risk Management; Communications; Purchasing; ADA and Information Technology. These funds ended FY 2023-24 with an estimated combined available fund balance of $22.0 million, an increase of $2.8 million from the previous year. The increase was due to the following:

- $1,398,211 increase in the Workers Compensation fund
- $58,991 increase to the Purchased Insurance fund
- $421,032 increase in the Information Technology fund
- $82,156 increase to the Roads Heavy Equipment fund
- $1,463,209 increase to the Motor Pool fund
- $249,421 increase in the Dental fund
- $104,825 increase in the Risk Management fund
- $32,108 increase to the Employee Benefits fund

These increases have been offset by the following decreases:

- $339,836 decrease in the Liability fund
- $131,092 decrease in the Medical fund
- $232,540 decrease in the Communications fund
- $41,548 decrease in the Unemployment fund
- $39,269 decrease to the Purchasing fund
- $235,811 decrease to the ADA Fund

The Workers Compensation fund had a large increase in available fund balance of $1.4 million. This is due to lower than anticipated premium costs. The Motor Pool fund had a large increase in available fund balance of $1.5 million. This increase is due to implementing an increase in charges to departments necessary to cover the increased costs of fuel and replacement.

The Purchasing fund has a negative fund balance of ($81,753) at the end of FY 2023-24. This negative fund balance is due to larger than anticipated CAP charges in FY 2022-23 and FY 2023-24. The Purchasing fund, along with all other internal services funds, has implemented a process to reconcile charges in order to maintain sufficient fund balances that are not over- or under-funded. Purchasing charges for FY 2024-25 were increased accordingly and it is anticipated that the purchasing fund will end FY 2024-25 in the positive.

Review of First Quarter Budget Results

Your Board adopted the county's FY 2024-25 budget on June 25, 2024 with a $15.1 million budget deficit in the General Fund. With the adoption of this budget, your Board directed cost-saving measures including a voluntary separation incentive program (VSIP), voluntary furloughs, and a hiring freeze for the General Fund.

Cannabis Excise Tax

On Oct. 3, 2023, your Board elected to reinstate cannabis excise taxes at 10% of the voter-approved tax rate to be collected in 2025. Due to the uncertainty of collections, staff did not budget this as a revenue source in FY 2024-25, though as of this report over $150,000 has been collected. On Nov. 12, 2024, your Board received an update on the Cannabis Excise Tax, in which it was reported that $12.0 million remained outstanding, with $896,985 paid and $1.3 million cancelled since the prior year. Your Board elected to suspend taxes for tax year 2026 and revisit next year with options to take a revised tax structure to the voters in a future. Additionally, your Board elected to suspend the Consumer Price Index (CPI) increases for tax year 2025, keeping rates at a straight 10% of the $1/$2/$3 charges for outdoor, mixed light and indoor cultivation.

Voluntary Separation Incentive Program

Your Board directed staff to develop a VSIP in FY 2024-25. On Aug. 13, 2024, your Board approved the program plan and the designation list of positions that would be eligible. Departments designation 21 positions as eligible for the VSIP.

Four county employees submitted and were authorized for the VSIP for a total county cost of $72,000. As a result of offering VSIP, departments were required to hold positions vacant through FY 2026-27. Departments were able to elect alternative positions to the one being vacated, provided that the positions being held vacant were fiscally equal to that being vacated at a minimum of 90%. All of the positions that utilized the VSIP were in DHHS, it is estimated that cost savings from vacancies in FY 2024-25 will be $243,869, accounting for the incentive payments issued to employees for electing to participate in the VSIP. For FY 2025-26 and FY 2026-27, it is estimated that over $500,000 will be saved annually, for an overall savings of more than $1.3 million. As it was an option for departments to backfill with extra help, these savings could be reduced some by the utilization of extra help staff or if the departing staff member had large leave balances to be paid out.

Voluntary Furlough and Hiring Freeze

Your Board authorized departments to offer voluntary furlough and implemented a hiring freeze on funds with a negative fund balance or that received an Additional Request for General Fund Appropriation. These strategies aim to produce salary savings. The CAO has received 27 voluntary furlough forms. Though helpful in providing savings to individual departments, the savings from voluntary furlough are immaterial in the overall fund balance calculations.

The savings from the hiring freeze are difficult to calculate. DHHS has provided the anticipated savings they have gleaned from implementing the hiring freeze, $3.5 million in fund 1160 and $3.1 million in fund 1170. When implemented properly, a hiring freeze should produce savings through attrition. The Board has approved every request for exception to the hiring freeze, therefore, it is unlikely that there will be any significant savings in the General Fund from the hiring freeze.

Recommendations

Recommendation #2: ARPA

In the past couple of fiscal years, your Board has utilized one-time funds, such as CARES Act and ARPA to fund ongoing increases in expenditures. In FY 2024-25 your Board allocated a small remaining amount to existing ongoing expenditures already approved in ARPA, the budget included $3.69 million of remaining ARPA funds:

ARPA FY 2024-25		
HVAC for Regional Facility	$	85,000
HVAC for Information Technology Facility	$	200,000
Child Care Programming	$	242,825
Behavioral Health Triage Center	$	1,500,000
Housing Trust Fund	$	1,500,000
Headwaters Adminisitration - Audit Services	$	18,560
Human Resources Staffing	$	142,779
Total	**$**	**3,689,164**

Due to additional unanticipated underspending in FY 2023-24 in COVID-19 supplies and Human Resources allocations, there is an additional $36,600 remaining to be obligated. All ARPA funds must be obligated by Dec. 31, 2024. Staff recommends that your Board allocate these remaining funds to the existing Human Resources staffing which will allow Human Resources to continue to maintain the existing reporting requirements for COVID-19.

Recommendation #3: Library Position

Due to an administrative error at the time of budget adoption, the Library budget (1500-621) was short 1.0 FTE Library Assistant I/II. The Library included funds for this position in their budget, so no budget adjustment is necessary. Approval of the allocation of this position will correct this and allow the Library to proceed with recruitment and hiring.

Recommendation #4: Public Defender Positions

At the time of budget adoption, the Public Defender submitted their budgets late without sufficient time for review. In the submission, the budget reallocated two existing and filled positions:

- Budget Unit 219: 1.0 FTE Senior Legal Secretary was reallocated to 1.0 FTE Administrative Analyst
- Budget Unit 246: 1.0 FTE Senior Legal Secretary was reallocated to 1.0 FTE Legal Office Services Supervisor

As there are currently staff in the two deallocated positions, staff recommends your Board approve reallocating both positions back to their original positions.

Recommendation #5: Deferred Maintenance

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. Due to budget concerns, your Board did not contribute to Deferred Maintenance in FY 2023-24 and FY 2024-25. Had the contributions been budgeted, they would be $693,326 and $698,457 respectively. Staff seek Board direction to make those contributions in FY 2024-25 with the one-time funds for a total contribution of $1,391,783.

Recommendation #6: General Reserve

Pursuant to Section 29086 of the County Budget Act, the General Reserve may receive contributions to increase reserves at any point in the year with a 4/5th vote of the Board of Supervisors. Pursuant to the Board-adopted General Reserve Policy, the county's General Reserve should be equal to 10% to 16% of total General Fund expenditures, as averaged by the current and prior year adopted budgets. As reported at the adopted budget, this minimum target balance of 10% for FY 2024-25 is roughly $16.5 million. The county's current General Reserve balance is $10.6 million, or 6.3% of General Fund expenditures. Due to the structural budget deficit in FY 2023-24 and FY 2024-25, your Board elected not to contribute to the General Reserve, despite not having met the minimum target funding level. Based on the available fund balance, staff recommend a contribution of $3 million to the General Reserve. Should your Board choose to contribute, it would bring the General Reserve balance up to $13.6 million, or 8.1% of General Fund expenditures. This would make significant progress toward the minimum funding level for the General Reserve and improve the fiscal sustainability of the county.

Recommendation #7: Budget Adjustments

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

- $75,000 CAO - Management & Budget (1100-103) - Carryforward of FY 2022-23 approved

professional services for a potential tax measure on the November 2024 ballot, previously carried forward into FY 2023-24.
- $3,891 Contributions - Other (1100-199) - Carryforward of remaining balance of FY 2022-23 approved contribution to the Human Rights Commission, previously carried forward into FY 2023-24.
- ($596,000) Contributions - Other (1100-199) - Reduction of $596,000 in contribution for the Local Housing Trust Fund as the transaction for prior year contributions was completed in FY 2023-24.
- ($1,500,000) Contributions - Other (1100-199) - Reduction of $1,500,000 in contribution for the Local Housing Trust Fund from ARPA funds as the transaction can be completed in fund 3232 - Emergency Response.
- $571,714 Contributions - Other (1100-199) - Redevelopment Dissolution General Fund contribution to Economic Development, correction in calculation for FY 2014-15 to FY 2024-25, $240,946.57 to resolve the Headwaters EDA Set-aside balance, the remainder to fund 1120.
- $27,150 Office of Emergency Services (OES) (1100-274) - Carryforward from former FY 2023-24 OES budget 1100221800 for professional services for development of the resiliency position.
- $23,600 Current Planning (1100-277) - Carryforward from FY 2023-24 for the purchase of a new GIS Server.
- $438,292 Measure Z Contributions Other (1100-197) - Carryforward of FY 2023-24 fire expenditures, most of which has been ordered, but not received for the Humboldt County Fire Chief's Association (HCFCA).
- $220,590 Economic Development (1120-275) - Supplement Economic Development budget for board-approved allocations from the Transient & Occupancy tax (TOT). At the time of the adopted budget, only the General Fund was supplemented. This includes $25,000 for managing the TOT contracts, $50,000 for professional services for a marketing assessment and $145,590 for staff time to develop a new marketing strategy for the county's travel and tourism assets.
- $571,714 Economic Development (1120-275) - Redevelopment Dissolution General Fund contribution to Economic Development, correction in calculation for FY 2014-15 to FY 2024-25, $240,946.57 to resolve the Headwaters EDA Set-aside balance, the remainder to fund 1120.
- $25,000 Economic Development (1120-275) - Carryforward of FY 2023-24 approved professional services for the formation of the Southern Humboldt Business Improvement District
- ($596,000) American Rescue Plan Act (3232-120200) - Reduction of $596,000 in contribution for the Local Housing Trust Fund as the transaction for prior year contributions was completed in FY 2023-24.
- $45,500 American Rescue Plan Act (3232-120200) - Carryforward FY 2023-24 unspent funds for the Information Technology HVAC Project.

Also included in Attachment 1 are two appropriation transfers which have no net budget impact:
- $106,610 - Transfer appropriations for financial audit costs from the Board of Supervisors

budget (1100-101) to the Auditor-Controller budget (1100-111).

- $1,500,000 - Transfer from a transfer line (9138) to professional services (2118) for the Local Housing Trust Fund allocation from ARPA funds as the transaction can be completed in fund 3232, rather than transferring to the General Fund.

In addition to the above budget adjustments, in Attachment 2, a budget adjustment is included to transfer the FY 2024-25 budget for the Opioid Settlement Fund to a special revenue fund (fund 1600, budget unit 600) for tracking purposes. This will not increase or decrease the overall county budget, rather will move appropriations from the individual funds and budgets units into fund 1600. The FY 2024-25 Opioid Budget includes:

Opioid Settlement FY 2024-25

DHHS - Behavioral Health		
Drug Medi-Cal Organized Delivery System PUPM Medi-Cal Match	$	1,125,000
BH - OSF Administration	$	20,600
	$	**1,145,600**
DHHS - Public Health		
Harm Reduction Program: personnel, disposal from syringe kiosks	$	175,578
SUD Prevention School Outreach	$	100,000
	$	**275,578**
DHHS - Public Health/Behavioral Health & Community Collaboration		
RXSafe Humboldt, local overdose safety coalition	$	25,000
	$	**25,000**
Sheriff		
Jail Medication Assisted Treatment (MAT)	$	515,000
	$	**515,000**
Probation		
Clean and Sober Housing	$	50,000
	$	**50,000**
Total	**$**	**2,011,178**

The Sheriff MAT program amount is increased from what was reported at the proposed budget due to not receiving a grant that was applied for.

Approval of these budget adjustments will reduce overall budget appropriations in the General Fund by ($2.53 million). This is an overall reduction due to the movement of transactions for ARPA and Opioid Settlement funds out of the General Fund and will not have an impact on the General Fund budget deficit as these were funded by external funding sources.

Future Budget Outlook

As previously reported, the estimated available General Fund balance for use in FY 2024-25 is $35.9 million. With an $15.1 million adopted budget deficit in FY 2024-25 and incorporating recommendations for one-time contributions to Deferred Maintenance and the General Reserve and the budget adjustments in Attachment 1 that are not carryforward, $15.9 million is estimated to remain to fund FY 2025-26.

General Fund Projection

FY 2023-24 Ending Balance	$	42,833,319
Carryforward to FY 2024-25	$	(1,074,447)
Measure Z Available FY 2024-25	$	(5,817,993)
FY 2024-25 Available General Fund Balance	**$**	**35,940,879**
FY 2024-25 Adopted Budget Fund Balance Use (without Measure Z)	$	(15,081,469)
Recommendation #5: Deferred Maintenance Contribution	$	(1,391,783)
Recommendation #6: General Reserve Contribution	$	(3,000,000)
Recommendation #7: Non-carryforward Budget Adjustments	$	(571,714)
FY 2025-26 Available General Fund Balance	**$**	**15,895,913**

As always, it is critically important this year that departments are realistic with their year-end budget projections provided at the mid-year budget report, so that reliable fund balance projections can be established for staff to provide recommendations to your Board for FY 2025-26 budget development. The expenditure reduction efforts by departments were successful in reducing the deficit in FY 2023-24. Expenditure reduction measures must continue to be pursued to reduce the impact of the FY 2024-25 budget deficit and anticipated FY 2025-26 deficit. Further, while the fund balance improvement is helpful in funding budget deficits, one-time funds such as fund balance will not resolve sustained budget deficits. It is still recommended to prioritize long-term cost saving strategies to produce a balanced budget.

SOURCE OF FUNDING:
All County Funds

FINANCIAL IMPACT:

Expenditures (various)	**Rec #2**	**Rec #5**	**Rec #6**	**Rec #7**
Additional Appropriation Requested	$36,600	$1,391,783	$3,000,000	$930,496
Total Expenditures	**$36,600**	**$1,391,783**	**$3,000,000**	**$930,496**
Funding Sources (various)	**Rec #2**	**Rec #5**	**Rec #6**	**Rec #7**
General Fund - 1100		$1,391,783	$3,000,000	$1,394,645
General Fund - Measure Z - 1100				$438,292

Economic Development - 1120				$576,357
Emergency Response Fund - 3232	$36,600			$550,500
Total Funding Sources	**$36,600**	**$1,391,783**	**$3,000,000**	**$930,496**

The financial impact is detailed in the report. If your Board takes action as recommended, the recommended budget adjustments in Recommendations 2, 5, 6 and 7 will increase the overall county General Fund (1100) budget by $2,997,138, the General Fund - Measure Z budget by $438,292, the Economic Development fund (1120) by $576,357 and the Emergency Response fund (3232) will decrease by ($513,900).

STAFFING IMPACT:

Position Title	**Position Control Number**	**Additions (Number)**	**Deletions (Number)**
Library Assistant I/II	621-0157	1.0	
Senior Legal Secretary	219-1140	1.0	
Senior Legal Secretary	246-1140	1.0	
Administrative Analyst I/II	219-0626		(1.0)
Legal Office Services Supervisor	246-1150		(1.0)

The staffing impact is detailed in the report. If your Board takes action as recommended, the recommended staffing adjustments will have no net impact on total positions in the General Fund (1100) and will increase positions by 1.0 FTE in the Library Fund (1500).

OTHER AGENCY INVOLVEMENT:
None

ALTERNATIVES TO STAFF RECOMMENDATIONS:
Board discretion.

ATTACHMENTS:
1. First Quarter Budget Adjustments FY 2024-25
2. Opioid Settlement Fund Budget Adjustment FY 2024-25

PREVIOUS ACTION/REFERRAL:
Meeting of: 6/4/2024, 6/25/2024, 11/12/2024
File No.: 24-902, 24-1012, 24-1504