



COUNTY OF HUMBOLDT

For the meeting of: 6/28/2022

File #: 22-832

To: Board of Supervisors
From: County Administrative Office
Agenda Section: Departmental

SUBJECT:
Recommended Fiscal Year (FY) 2022-23 Budget

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive and review Humboldt County's Recommended FY 2022-23 Budget;
2. Approve the Recommended Budget appropriations for FY 2022-23 subject to modifications and staff direction for adoption of the final budget on or before Oct. 2, 2022;
3. Approve establishment of a freeze on hiring staff, subject to an exception for essential and critical open positions, until after the Final Budget is adopted;
4. Approve establishment of a freeze on all budget adjustments related to FY 2022-23, including appropriation transfers, until after the Final Budget is adopted;
5. Authorize department heads to continue to approve voluntary unpaid furloughs for employees under their appointment authority for FY 2022-23;
6. Direct the Clerk of the Board to post and publish the required public hearing notice for the FY 2022-23 recommended budget at least 10 days prior to the public hearing (proposed for Sept. 12, 2022); two publications are required, with at least 5 days intervening between the dates of the first and last publications, not counting such publication dates;
7. Direct the County Administrative Officer to return to your Board on or before Oct. 2, 2022, to consider adoption of the Final Budget for FY 2022-23; and
8. Take other action as appropriate.

SOURCE OF FUNDING:

All county funds

DISCUSSION:

California Government Code Sections 29000 through 30200, known as The County Budget Act, as applied through rules issued by the Office of the State Controller, provide the legal requirements pertaining to the content of the proposed budget, adoption procedures and dates by which action must be taken.

FY 2022-23 Budget Timeline

- On March 8, 2022, as part of the Mid-Year Budget Review, your Board set parameters for the development of the FY 2022-23 budget for General Fund allocations and the budget calendar. The parameters included direction to set departmental allocations from the General Fund to remain at the FY 2021-22 level with a department adjustment for projected salary & benefit increase with a 10% vacancy rate factored into the adjustment. In addition, your Board directed staff to accept Additional Requests for General Fund Appropriation (additional funding requests) in the FY 2022-23 budget limited to one-time urgent requests, set the annual departmental contribution to Public Agency Retirement Services (PARS) to 2% of salaries and approved staff recommendations to close the FY 2022-23 projected General Fund deficit.
 - Preparation of the proposed budget began on March 11, 2022, when County Administrative Office (CAO) staff presented to departments the parameters for development of the FY 2022-23 budget requests. Departments were asked to submit their requests to the CAO by April 11, 2022. The CAO reviewed the budget and additional funding requests from April through June 2022.
 - On May 24, 2022, as part of presenting the status of outstanding financial reports, your Board accepted staff recommendations to delay adoption of the final budget to Sept. 27, 2022, as allowed by California Government Code. The purpose of this delay was to allow additional time for the FY 2019-20 audit to be completed and for more transactions from FY 2020-21 to be posted to provide more reliable estimates of the county's fund balances. The revised budget schedule is provided below:
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Proposed Budget Adoption Schedule FY 2022-23			
Gov. Code Section	Budget Action Required	Required on or before Date	Recommended Date of Action
§29040	Departments must submit and designated Administrative Officer must receive budget request	06/10/22	04/11/22
§29061, §29062	Recommended Budget submitted to the Board	06/30/22	06/28/22
§29063, §29064(a)	Board adopts Recommended Budget	06/30/22	06/28/22
§29065	Make the Recommended Budget available to the general public	09/08/22	06/28/22
§29080(a)	Publish notice that Recommended Budget is available and not sooner than 10 days later conduct a public hearing	09/08/22	08/30/22
§29080(b)	Conduct public hearing on Recommended Budget	10/02/22	09/12/22
§29088	Board adopt Final Budget, after conducting public hearing	10/02/22	09/27/22
§29093	Submit Adopted Budget to the State Controller	12/01/22	11/28/22
GFOA - Budget Award	Submit Adopted Budget Document to the GFOA Budget Award Program 90 days after adoption	12/31/22	12/19/22

- Presentation of the CAO Recommended Budget is before your Board today for possible approval and direction to incorporate into the Final Budget.
- Public hearings on the FY 2022-23 Recommended Budget will be held on Sept. 12, 2022.
- The FY 2022-23 Final Budget is scheduled to be adopted on Sept. 27, 2022.

FY 2022-23 Budget

Today, the total proposed budget (or spending plan) before your Board for FY 2022-23 is \$570,531,333 (excluding internal service funds). The total proposed budget represents an increase of \$62,308,293, or 12% more than the budget your Board adopted for FY 2021-22.

Wages and benefits increased 10.3% or \$22.7 million, due to the recently negotiated labor agreements and reinstatement of a 2% department contribution to the county’s Public Agency Retirement Services (PARS) 115 trust account. The county received \$13.1 in American Rescue Plan Act funds that were not included in the Adopted Budget in FY 2021-22. Department of Health and Human Services (DHHS) programs include a net increase in expenditures, excluding wages and benefits, of \$14.5 million. Advanced Planning received a large grant from the California Department of Cannabis Control, much of which is planned for disbursement in FY 2022-23 and is primarily responsible for a \$10.8 million

increase in the department's expenditure budget. Finally, the Recommended Budget includes increased reserve contributions: \$5 million for General Reserve, up from \$920,000 in FY 2021-22, and \$2.5 million for Contingency Reserve, up from \$1,302,276 in FY 2021-22.

The FY 2022-23 budget proposes that your Board allocate \$191,423,814 in General Fund Expenditures, which is an increase of \$33,321,455, or 21%, from the prior year. This increase includes many of the same factors as the overall budget. General Fund wages and benefits increased by an overall \$12.5 million or 16.6%. Law enforcement personnel as a group had higher wage and benefit increases and are almost exclusively funded from General Funds. Additionally, wages and benefits make up a higher percent of the General Fund expenditure budget at 46% of total expenditures, as compared to 41% for the total county expenditure budget. Finally, the \$10.8 million from the Cannabis Control grant disbursements, the \$5 million contribution for General Reserve the \$2.5 million Contingency Reserve are wholly General Fund appropriations.

In the General Fund, projected revenues for FY 2022-23 are \$154,852,559, which is an increase of \$6,222,945, or 4.2% from FY 2021-22. This revenue increase is primarily due to increased property, sales, transient occupancy, and Measure Z taxes. These increases offset the 85% temporary 1- year reduction in the Measure S Cannabis Excise taxes granted by your Board to assist struggling Humboldt County cannabis cultivators. Additional General Fund financing sources total \$49,351,330. These financing sources, added to the General Fund revenues, create a balanced budget.

As mentioned in previous budget reports, the outstanding financial transactions, reports and reconciliations have resulted in challenges in managing and monitoring the county's more than half-billion-dollar budget. Without the audit adjustments for FY 2018-19 and FY 2019-20 having been posted, and a significant number of FY 2020-21 unposted journals and accounts not reconciled, staff are unable to provide your Board with reliable information regarding fund balances. In addition, delays in closing months in the current fiscal year, delays in posting pending journal transfers, and expenditures and budget adjustments, only exacerbate the county's lack of financial integrity.

It is the lack of financial integrity that led the CAO to recommend doubling the county's existing General Reserve from \$4.7 million to \$9.7 million, with the \$5 million set aside. Going forward, it is imperative that the county rebuild its fiscal reputation and present itself as fiscally sustainable and conservative. Likewise, the \$2.5 million contingency reserve provides your Board resources for stabilizing the county's financial reporting functions and restoring timely processes and procedures.

Recommendation 3: Hiring Freeze

As a direct result of the incomplete and unreliable financial information, the CAO is recommending a hiring freeze or pause on all new hires and recruitments, effective July 1, 2022. The freeze would apply to all nonessential and noncritical positions, as determined by the CAO. Recruitments currently underway with a specific close date would continue forward but no new or renewing recruitment will be opened unless deemed critical and essential through a review of Human Resources and the CAO. The hiring freeze will be re-evaluated, when your Board considers adoption of the final FY 2022-23 Budget in late September.

Recommendation 4: Budget Adjustment Freeze

Also as a direct result of the incomplete and unreliable financial information, the CAO is recommending the adoption of the FY 2022-23 budget to occur on or before Oct. 2, 2022. In order to allow for recommended appropriations to take place beginning July 1, 2022, the proposed budget will be utilized as a placeholder until such time as the budget is adopted. Given a placeholder will be reflected and to ensure the budget is effectively managed and documented, it is important that no additional budget adjustments take place until the final budget can be adopted. Following final budget adoption, departments will be permitted to complete retroactive budget adjustments for any changes that may be necessary for the first quarter of the year.

Recommendation 5: Continuation of Voluntary Furlough

In addition to a hiring freeze, the CAO is recommending the continuation of the voluntary furlough program consistent with the terms of the most recent FY 21-22 furlough program, which allowed full-time staff to voluntarily commit to a schedule of unpaid days of leave, subject to department head and CAO approval, while maintaining benefits and leave accruals consistent with full-time employment status.

Measure Z

Measure Z generated \$13.9 million in FY 2020-21 with \$3.6 million remaining in carry forward funds. The FY 2021-22 budget was adopted with an estimated \$12.5 million in Measure Z revenue and expenditures. Staff estimate that Measure Z will have generated \$14 million by the end of June 2022, with \$3.9 million remaining in carry forward funds.

On April 26, 2022, your Board reviewed the FY 2022-23 list of Measure Z applications as prioritized by the Measure Z Citizens' Advisory Committee and recommended an estimated \$10.7 million in ongoing expenditures and \$7.2 million in additional applications for a total of \$17.9 million in Measure Z spending (Attachment 1).

American Rescue Plan Act

In March 2021, Congress passed a \$1.9 trillion American Rescue Plan Act (ARPA), which provided \$350 billion in federal fiscal relief to local governments, with \$65.1 billion set aside for counties and another \$65.1 billion designated for cities. The County of Humboldt and all of the incorporated cities within Humboldt County have received funding through this act in 2021 and the remaining funding in late Spring of 2022. All counties receive funding directly from the US Treasury, while cities under 50,000 total population receive funding through the state.

The US Treasury has released guidance on uses for the local fiscal relief funding. This funding can be used to:

- Respond to the public health emergency and address its negative economic effects;
- Replace lost public sector revenue; and
- Invest in water, sewer, and broadband infrastructure.

On Aug. 10, 2021, your Board approved a spending plan for the initial ARPA payment of \$13.1 million, which included funding for an economic impact grant program with priority areas of housing,

childcare, and telehealth & broadband, Department of Health and Human Services (DHHS) General Relief Client debt forgiveness, and community requests as determined to be eligible.

The final ARPA payment of \$13.165 million arrived June 16, 2022, and the associated revenue and expenditure appropriations are included in the FY 2022-23 Recommended Budget, however, staff has not provided any specific guidance for use of those funds. Your Board indicated a desire to fund additional one-time Measure Z requests using these funds, including additional repeater improvements for the Sheriff and Public Works radio communications systems and road maintenance and repair. The CAO is recommending use of ARPA to avoid layoffs or reductions to Public Safety employees and an additional funds allocation to the Roads Fund to offset the growing fund balance deficit.

Unless your Board provides other direction, the CAO will incorporate these suggestions in the final ARPA funding plan which will be included in the FY 2022-23 Final Budget presented in September.

Additional Funding Requests

Departments submitted over \$9.3 million in additional funding requests, as shown in Attachment 2. The CAO is recommending the following one-time requests at this stage in the budget process with the recommendation to reconsider additional request in September, when better financial information is expected to be available:

1. Board of Supervisors for outreach and advocacy at the state and federal level - \$63,928
2. County Counsel for increase in insurance costs due to increased litigation against the county that are unable to be absorbed and will prevent staffing reductions - \$270,000
3. Public Works for continued monitoring of the Brownfield cleanup - \$115,000
4. Sheriff - Operations to fund 28 positions to avoid layoffs (from ARPA funding) - \$3,228,601
5. Sheriff- Corrections to fund 14 positions to avoid layoffs (from ARPA funding) - \$1,314,509
6. Code Enforcement for nuisance abatement on behalf of property owners - \$500,000
7. Current Planning for carry forward funding to complete facility upgrades - \$270,000
8. UC Cooperative Extension for increased expenses within the department that are unable to be absorbed and will prevent staffing reductions - \$31,217
9. Economic Development for staffing support to avoid layoff - \$50,253
10. Behavioral Health for additional funding to support implementation of "Laura's Law" - \$320,650

FINANCIAL IMPACT:

Funding is as shown in the Humboldt County FY 2022-23 Proposed Budget document (Attachment 3). The total proposed county budget is \$570,531,333, proposed General Fund expenditures are \$191,423,814, including a Contingency Reserve of \$2.5 million and set aside funding for the county's General Reserve or rainy-day fund of \$5 million.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by managing our resources to ensure sustainability of services.

OTHER AGENCY INVOLVEMENT:

File #: 22-832

All county departments and agencies, as well as several community organizations that receive county funding, are affected.

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board's discretion.

ATTACHMENTS:

1. Measure Z Funding FY 2022-23
2. Additional Funding Requests FY 2022-23
3. Humboldt County FY 2022-23 Proposed Budget (copy on file with the Clerk of the Board and available online at <http://www.humboldt.gov/247/Budget>)

PREVIOUS ACTION/REFERRAL:

Board Order No.: I-3, H-1, H-2, H-1

Meeting of: 08/10/2021, 03/08/2022, 04/26/2022, 05/24/2022

File No.: 21-1002, 22-163, 22-470, 22-666