



COUNTY OF HUMBOLDT

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Date	Ver.	Action By	Action	Result
1/26/2021	1	Board of Supervisors	approved as amended	Pass

To: Board of Supervisors
From: County Administrative Office
Agenda Section: Time Certain Matter

SUBJECT:
10:30 a.m. - Budget Review for Fiscal Year (FY) 2020-21 and Budget Outlook for FY 2021-22

RECOMMENDATION(S):
That the Board of Supervisors:

1. Receive and file a review of the current FY 2020-21 and budget outlook for FY 2021-22;
2. Direct the County Administrative Office (CAO) to prepare the FY 2021-22 budget proposal based on status quo General Fund allocations:
 - a. Set departmental allocations from the General Fund to remain the same as in fiscal year 2020-21 with exceptions for Measure Z and those departments that have received increased ongoing General Fund allocations during fiscal year 2020-21;
 - b. Accept and consider requests for additional General Fund appropriations with a preference given to one-time requests;
3. Review the estimated unallocated Measure Z revenues along with the recommendations from the Measure Z Citizens' Advisory Committee (Attachment I) and provide direction on whether to allocate funding;
4. Determine if departmental budget presentations will be held for FY 2021-22 and determine presentation schedule;
5. Direct staff to return at third quarter only if the budget parameters set forth for FY 2021-22 require substantial changes; and

6. Provide additional direction to staff as appropriate.

SOURCE OF FUNDING:

All County Funds

DISCUSSION:

The CAO undertakes a mid-year financial review each fiscal year. The mid-year review serves the dual purpose of monitoring the county's budget for the current fiscal year and providing staff, your Board, and the public with a preview of the county's financial status going into the next budget year. As of January 21, 2021, FY 2019-20 has not yet closed. Closing a fiscal year essentially posts all of the credits and debits to the county's various accounts for a fiscal year, similar to the way a bank posts charges and deposits to a checking account. This closing is important because it provides the "actuals" for that year, which allows staff to understand how much money a department has spent or received compared to earlier projections, and how much is available in various funds, including the General Fund. Finally, closing the year provides the starting point for budget projections for the next fiscal year. Without prior year actuals it is difficult to prepare a budget report for your Board. As a result of not having the prior fiscal year closed there remain a number of outstanding items. Items that remain outstanding are as follows:

Outstanding Item #1: Closing of FY 2019-20

In the normal course of business, the county's books are closed by the Auditor-Controller (AC) following a reasonable period of time after the end of a given fiscal year (June 30). Closing the books means that all financial transactions have been properly recorded and accounted for in the county's accounting system. After the fiscal year is closed, the county's financial statements are prepared. Then, independent auditors audit these financial statements, as required by law.

In the past, closing the fiscal year was completed in September or early October, approximately 3 months after the end of the prior fiscal year.

The effects of this delay include the following:

- Unknown FY 2019-20 year-end fund balances, which are a starting point to the development of the upcoming fiscal year budget.
- Reduces the ability to allocate funds for additional General Fund requests.
- Decreases transparency due to delayed posting of financial transactions.
- Loss in state and federal funding.
 - Public Works reports a loss of approximately \$260,000 for fiscal year 2018-19 and \$245,000 2019-20 due to delays in the county's completion of the annual audit which caused a delay in submitting Indirect Rate Cost Proposal (IRCP).

The following communications have taken place regarding the year-end closing timeline:

- May 29, 2020: AC issued memo anticipating a year-end close date of Oct. 2, 2020.
- Week of Oct. 5 - Oct. 12, 2020: AC met with departments to discuss the year-end closing and FY 2018-19 audit.
- Nov. 23, 2020: AC verbally expressed an anticipated close day of Dec. 18.

- Dec. 2, 2020: AC provides an update on year-end and indicates an update would be provided the following day. No additional update.
- Dec. 3, 2020: CAO inquiry on behalf of an outside agency about year-end closing. No response was received.
- Dec. 14, 2020: CAO inquiry about year-end closing. AC responded a tentative close date of Dec. 18.
- Dec. 18, 2020: AC email to fiscal staff indicating a delay in year-end closing to Dec. 28.
- Dec. 21, 2020: CAO inquiry on behalf of an outside agency about year-end closing. AC provided Dec. 18 email.
- Jan. 5, 2021: Budget Ad Hoc member inquiry about year-end closing. No response.
- Jan. 8, 2021: CAO inquiry about year-end closing. No response.
- Jan. 13, 2021: A member of the Board of Supervisor was provided verbal confirmation from the AC that the closing would take place on Jan. 15, 2021. This closing did not occur.
- Jan. 15, 2021: CAO inquiry about year-end closing. No response.
- Jan. 19, 2021: CAO inquiry about year-end closing.
- Jan. 20, 2021: AC responds to inquiries about year-end closing, however no definitive date was provided.

As of Jan. 19, 2021, the Department of Health and Human Services has indicated that \$12 million in accounts receivable (revenue) has not been accrued to FY 2019-20. For the General Fund \$11.2 (\$9 million in expenses and \$2.2 million in revenue) in financial transactions have not posted for the General Fund. These transfers impact many funds.

Outstanding Item #2: Delays in Interest Apportionment

Quarterly, the Treasurer is required to determine how much interest should be apportioned across all interest-bearing funds based on the average daily balance of those funds throughout each quarter. The average daily balance cannot be calculated until the Auditor-Controller posts and reconciles all transactions that took place during that quarter. Interest is then equitably distributed to all treasury pool participants including the schools and community college, special districts, and the county's General Fund.

The General Fund relies on the timely apportionment of interest to fund critical local services. The General Fund has not received \$1.3 million in interest revenue since the second quarter of FY 2018-19. Interest apportionment has been routine in the past. In addition, interest apportionment has not been applied to other funds since 3rd quarter of FY 2019-20. This is worth an estimated \$1.4 million in revenue. The following communications have taken place regarding the apportionment of interest to the General Fund:

- Dec. 17, 2019: CAO inquiry on interest apportionment to the General Fund. No response.
- Jan. 2, 2020: CAO inquiry on interest apportionment to the General Fund. AC responded that interest was apportioned at the fund level and cited Government Code 53647.
- Jan. 3, 2020: CAO responded, indicating interest earnings post to the General Fund. No response.

- Jan. 29, 2020: CAO meet with the AC met in person and came to an agreement that interest will be transferred to the General Fund, meeting memorialized in an email. No response.
- Feb. 19, 2020: CAO follow up as interest was not posted to the General Fund. No response.
- May 1, 2020: Treasurer-Tax Collector requests interest be apportioned. AC staff responds interest approved for posting, less the portion due to the General Fund.
- June 5, 2020: CAO documents interest apportionment across funds. No response.
- Nov. 23, 2020: Impacts to General Fund due to lack of interest apportionment discussed.
- Jan. 8, 2020: CAO inquiry on interest apportionment. No response.
- Jan. 12, 2021: The Sheriff requests the AC to move interest in “Sheriff funds” to the General Fund as allowed by law. AC responds, up to the department to move interest.
- Jan. 15, 2020: CAO inquiry on interest apportionment. No response.
- Jan. 19, 2021: CAO inquiry on interest apportionment.
- Jan. 20, 2021: AC responded to the interest apportionment inquiry; however no definitive date was provided.

Outstanding Item #3: FY 2020-21 Cost Allocation Plan (CAP)

The county is required to have a state-approved CAP to receive reimbursement from state and federal agencies for internal service and central service costs.

The FY 2020-21 CAP was due to the state on Dec. 31, 2019 and has not yet been submitted. The following communications have taken place regarding the FY 2020-21 CAP:

- Jan. 14, 2020: CAO inquiry on CAP submission. AC responded once the 2019-20 CAP is approved it will be roughly 6-8 weeks for the 2020-21 CAP to be finalized.
- Feb. 19, 2020: CAO inquiry on 2019-20 CAP submission. No response.
- April 14, 2020: AC notified the revised CAP for FY 2019-20 would be submitted to the state.
- May 6, 2020: The state approved the FY 2019-20 CAP.
- Nov. 23, 2020: Impacts to the General Fund of not posting and/or having a CAP discussed.
- Dec. 2, 2020: FY 2019-20 CAP charges posted.
- Dec. 4, 2020: CAO inquiry on submission of the 2020-21 CAP. AC responded requesting time reports and square footage. CAO asked for clarification. No response.
- Dec. 8, 2020: Macias Gini & O’Connell LLP (MGO) to work with staff to review Internal Service Fund (ISF) charges.
- Dec. 8, 2020: CAO provide courthouse blueprints and square footage to the AC and asked again for clarification on which time reports are needed. No response.
- Dec. 9, 2020: ISF Managers and CAO work with MGO on evaluating ISF charges.
- Dec. 14, 2020: CAO sends all of the time reports.
- Jan. 4, 2021: CAO contacts MGT (the consultant who prepares the CAP in collaboration with the AC). MGT cites communication with AC in mid-December.
- Jan. 5, 2021: Budget Ad Hoc inquiry about the completion of the CAP. No response.
- Jan. 4, 2021: MGO requests the AC to participate in the ISF meetings. AC does not agree to participate in the meetings.
- Jan. 8, 2021: CAO inquiry on the completion of the CAP. No response.

- Jan. 13, 2021: MGO responded to the AC's Jan. 4 email providing additional context. No response.
- Jan. 14, 2021: CAO inquiry to MGT. MGT has had no additional communication with the AC.
- Jan. 15, 2021: CAO inquiry on the completion of the CAP. No response.
- Jan. 19, 2021: CAO inquiry on the completion of the CAP. No response.
- Jan. 20, 2021: AC responded to the CAP inquiry; however no definitive date was provided.

The negative impact of not having a CAP for FY 2020-21 is an estimated loss of federal and state dollars in the amount of \$15.3 million.

A loss of \$15.3 million creates an estimated deficit of \$6.1 million across 5 funds (ADA, Information Technology, Liability, Purchasing and Workers Compensation). The General Fund is the only source of funding to reduce these estimated negative fund balances. This would place the county in a self-made financial crisis, one that could result in service reductions in service to the public and lay-offs of county staff.

Due to these outstanding items, staff recommends a status quo budget be prepared for FY 2021-22. This means General Fund allocations will remain the same as in fiscal year 2020-21 with exceptions for Measure Z and those departments that have received increased ongoing General Fund allocations during fiscal year 2020-21. Once the outstanding items are completed staff can recommend budget adjustments at a later date.

FY 2020-21 Budget Review

Due to delays in closing months in the current fiscal year and delays in posting pending journal transfers and expenses, estimates for year-end actuals are conservative. While deviations from the adopted budget have been reported by a few departments, these deviations are not material and the vast majority of departments are estimating year-end actuals to coincide with budgeted appropriations. However, since the first quarter of the fiscal year has not closed, it is difficult to estimate year-end fund balance. In total, five departments reported variances from budgeted appropriations, with expenditures exceeding General Fund allocations by \$162,097. Those variances are as follows:

- \$61,418 for additional extra help staffing in the Auditor-Controller's Office.
- \$36,000 for the purchase of business license/cannabis permitting software for the Treasurer-Tax Collector.
- \$45,000 in a reduced contribution to the General Fund from Revenue Recovery due to reduced caseloads.
- \$27,344 in unanticipated expenditures related to the COVID pandemic and response to the Complex Fire.
- \$7,665 in additional revenue for County Counsel due to an unexpected reimbursement on a case.

Sales Tax

As of Jan. 20, 2021, \$3,927,590 has been received in sales tax revenue. This is \$335,362 more than

actual revenues received this same time last year. In FY 2019-20, \$5.7 million in sales tax revenue was received. In response to the COVID-19 pandemic, sales tax revenue was estimated to decrease in the current year while the county navigated shifting tier assignments and stay-at-home orders. The FY 2020-21 adopted budget included sales tax revenues of \$4.9 million. However, sales tax is estimated to come in \$1.4 million over the current year budget. This reflects an increase of \$587,000 over the prior year actuals. While revenues for fuel services and business sectors have shown a decline, the Wayfare decision (which diverts online sales tax to the county receiving the product, rather than the county that ships the product) has provided the county with relief through accelerated movement to online spending linked to COVID-19 store closures and the use of federal stimulus for at-home needs.

Measure Z

The FY 2020-21 budget was adopted with the use of \$1.6 million in fund balance due to budgeted reductions in Measure Z revenues following COVID-19. Measure Z revenue is now estimated at \$11 million for FY 2020-21, exceeding budget estimates by \$1.6 million. Due to increased revenues and expenditure savings anticipated in FY 2019-20, the FY 2020-21 beginning fund balance is estimated to be \$1,013,388, of which \$527,504 is recommended to be carried forward into FY 2020-21 for the following projects:

- \$18,259 for KMUD to complete an emergency broadcast upgrade.
- \$127,882 for Orleans Volunteer Fire to complete the construction of a fire station.
- \$17,155 to finalize the Measure Z audit.
- \$364,208 for the Fire Chiefs to complete remaining projects.

As reported by departments and upon review of outside agency invoices, it is estimated that Measure Z expenditures will be under budget by approximately \$319,000 due to salary savings in the Sheriff Measure Z budget unit. Overall, revenues are estimated to exceed expenditures by \$799,330, leaving funding available for allocation by your Board. Staff recommends that your Board review the recommendations from the Measure Z Citizens' Advisory Committee (Attachment I) and provide direction on whether to allocate the remaining available funds totaling \$799,330. Once your Board adopts additional allocations for Measure Z, staff will return at a later date with a supplemental budget.

Labor Relations

There are a number of pending settlements and discussions regarding labor relations that cannot be discussed in detail in this report. However, your Board should be made aware that these items could have a financial impact. Staff estimate an overall impact to the General Fund of \$2 million to settle these items.

Section 2: Budget Outlook for Fiscal Year 2021-22

Set Parameters to Guide FY 2021-22 Budget Preparation

Normally the CAO brings a 1st Quarter Budget Report to your Board in November and a Mid-Year Budget Report in February. In these budget reports year-ending fund balance is reviewed as well as any variances, and often, your Board has the opportunity allocate additional funds to other departments/projects as a result of fund balance. Since fiscal year 2019-20 has not closed it is not possible to review fund balances across funds, and it is also not possible to effectively review current

fiscal year variances as the first and second quarters for the current fiscal year have not closed. Because of these outstanding items, as well as the items mentioned previously, the County Administrative Office recommends a status quo budget for fiscal year 2021-22. This means the following:

- General Fund allocations will not increase except for those departments that received an increased allocation during the current fiscal year such as the Auditor-Controller’s Office and with an exception for Measure Z. This means that increased costs in health insurance and other costs will need to be absorbed by departments.

FY 2020-21 Measure Z Balance Table

FY 2020-21 Estimated Beginning Fund Balance		\$1,013,388
FY 2020-21 Adopted Revenue		\$9,473,000
Measure Z Revenue Over Budget		\$1,605,000
FY 2020-21 Adopted Expenditures		(\$11,083,554)
Measure Z Recommended Carry Forward		(\$527,504)
Measure Z Expenditures Under Budget		\$319,000
Estimated Year-end Fund Balance FY 2020-21		\$799,330

The County Administrative Office will adjust the budget at a later date when the outstanding items are completed.

The CAO as well as the Budget Ad Hoc have reached out to the Auditor-Controller on multiple occasions, as detailed above, to identify when the list of outstanding items will be completed. As of the writing of this board item, a response was received on Jan. 20, however it did not provide any definitive dates for completion of the outstanding items.

Finally, your Board typically receives budget presentations from departments during the month of May, prior to final budget adoption. Feedback has been received that Board members would like an opportunity to engage departments earlier in the budget process to allow for Board input on the development of the department’s budgets. Given a status quo budget is being recommended by staff, your Board should determine if budget presentations would be beneficial for the FY 2021-22 budget and if so, develop a schedule for hearing those presentations.

Expenditure Increases for FY 2020-21

Over the past few years, California Public Employees’ Retirement System (CalPERS) has reduced the discount rate (expected return on investment) from 7.5% to 7.0% and has shortened the amortization period from 30 to 20 years. The current discount rate is 7.0%, representing the final reduction. This reduction comes in consideration of a low-return environment that CalPERS financial experts anticipate continuing over the next 10 years.

Retirement costs are estimated to increase by 6%, or an estimated \$1 million, for the General Fund in FY 2021-22. The below increases in retirement costs to the General Fund are anticipated for the coming years:

- \$530,000 in FY 2022-23
- \$182,000 in FY 2023-24
- \$84,000 in FY 2024-25 at which it is estimated cost increases will stabilize.

Given CalPERS is a pre-funded plan, changes to, or a failure to realize, any of the assumptions that underlie its funding targets must be made up by adjusting employer contributions in future years. In the past decade, several changes have occurred that have increased the county's unfunded liability to over \$331 million. On Sept. 15, 2015, your Board approved a Public Agency Retirement Services (PARS) Pension Rate Stabilization Program (PRSP) in order to begin addressing the mounting unfunded liability. Contributions to PARS will help to stabilize the contribution rates set by PERS. As the balance in the PARS trust grows and produces investment returns, those funds can be utilized to offset the increase in contribution rates, thereby reducing the effect of the contribution rate increase on the county and potentially preventing service reductions. The FY 2020-21 budget incorporated an annual departmental contribution to PARS equal to 1.5% of salaries totaling \$1.9 million for all county departments, however due to COVID-19, those charges are currently not being collected. In FY 2021-22, given the current unknown state of the county's finances, PARS charges will again be suspended. Staff anticipate returning at a later date to resume charges.

As mentioned previously, retirement costs are estimated to increase by \$1 million in FY 2021-22, or 6% for the General Fund. Salaries are estimated to increase by \$1.44 million or 3%. Health insurance is anticipated to decrease by \$98,000. All other benefit costs, including disability and social security is estimated to increase by \$64,000. In total, salaries and benefits are estimated to increase by \$2.6 million, or 3%, in the General Fund.

Revenue Changes for the General Fund

As of Jan. 20, 2021, approximately 750 commercial cannabis cultivation permits have been approved and 600 interim permits have been issued, the same overall number as reflected this time last year. The state has provided for an extension on the use of interim permits (IP) in 2021. Unless state law changes, 2021 will be the last year that allows for IPs. Given the overall number of approved permits has remained the same, initial estimates for FY 2021-22 suggest revenues of approximately \$13.9 million, reflecting no change over the prior year. Staff are forecasting that the Cannabis Excise Tax revenues will peak in FY 2021-22 with the expiration of the use of IPs, however changes in administration could certainly have impacts on future markets, especially if federal legalization is proposed. Currently, \$7 million in delinquent cannabis excise taxes remain unpaid for prior years. Cannabis Planning staff are placing pressure on taxpayers to remain current on tax payments in order to receive annual permit approval.

In FY 2020-21 property tax is anticipated to increase by \$3.2 million and sales tax is estimated to increase by \$1.2 million over the FY 2020-21 adopted budget. Revenue from code enforcement fines and penalties is estimated to increase by \$300,000. In addition, the transient occupancy tax is anticipated to increase by \$350,000 and all other miscellaneous revenue is estimated to increase by \$635,000. Overall, revenue is estimated to increase by \$5.6 million or 7%, not including Measure Z revenue. Measure Z sales tax is estimated to increase by \$1.6 million over the FY 2020-21 adopted budget which was decreased in anticipation of COVID-19. Both sales tax and Measure Z were not impacted to the magnitude anticipate during the early stages of COVID-19.

Section 4: Budget & Fee Update Calendar

The proposed calendar for county budget development (Attachment II) provides for final adoption of the budget on June 29, 2021. The intent is to allow for adoption of the budget before the beginning of the next fiscal year.

FINANCIAL IMPACT:

Given the current financial status of the county, no budget adjustments are recommended in this report. As discussed above, the outstanding items have placed the county's finances at risk. The staff time to develop this report have been included in the FY 2020-21 Adopted Budget. There are no other General Fund impacts as a result of this report.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by providing for and maintaining infrastructure , providing community-appropriate levels of service, managing resources to ensure sustainability of services and investing in county employees.

OTHER AGENCY INVOLVEMENT:

None

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion.

ATTACHMENTS:

- I. Measure Z Citizens' Advisory Committee Recommendations
- II. Budget & Fee Schedule Development Calendar for 2021-22

PREVIOUS ACTION/REFERRAL:

Board Order No.: B-1

Meeting of: 11/23/2020

File No.: N/A