



COUNTY OF HUMBOLDT

Legislation Text

File #: 23-687, Version: 1

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

Vote Requirement: Majority

SUBJECT:

Fiscal Year (FY) 2023-24 Budget Outlook and Additional Requests for General Fund Appropriations

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive an update from the County Administrative Office on the FY 2023-24 budget outlook;
2. Provide direction to staff on the submitted FY 2023-24 Additional Requests for General Fund Appropriations;
3. Following implementation of Phase 2 of the Municipal Resource Group's Classification and Compensation Plan, authorize an immediate moratorium through the end of FY 2023-24 on any and all personnel actions to modify pay (including advance step requests and out of class pay), reclassify positions, and/or position allocations that are not demonstrated to be net neutral (will not cause an increase in expenditures), and are not funded with state/federal dollars, on an ongoing basis;
4. Declare an immediate freeze on hiring staff in the General Fund through the end of FY 2023-24;
5. Authorize the County Administrative Officer and Director of Human Resources to approve exceptions to the hiring freeze utilizing the attached form to request an exception (Attachment 1);
 - a. When an exception is granted and where possible, encourage a promotional recruitment;
 - b. Consider an exemption for sworn personnel required to fulfill state, federal or locally mandated services;
6. Provide direction to staff on which Measure Z positions to deallocate that were allocated in FY 2022-23 and remain vacant;
7. Direct the County Administrative Officer to return to your Board with further research on options for reducing the FY 2023-24 budget deficit at the presentation of the FY 2023-24 Proposed Budget (June 6, 2023);
8. Direct the Clerk of the Board to post and publish the required public hearing notice for the FY 2023-24 proposed budget and special district budgets at least 10 days prior to the public hearing (proposed for June 12, 2023); two publications are required, with at least 5 days

intervening between the dates of the first and last publications, not counting such publication dates; and

9. Take other action as appropriate.

SOURCE OF FUNDING:

All county funds

DISCUSSION:

Economic Outlook

Beacon Economics reports that the recovery from the pandemic went better than expected. As of January 2023, there are 1.25 million job openings in California, with only 800,000 unemployed workers. While positive, the need for more workers in California will place strain on the housing market. The cost of a mortgage for a median priced home in California jumped from around \$2,400 a month in February, 2020 to around \$4,100 as of January, 2023, causing the demand for home purchases to collapse. In addition, the price of homes is not anticipated to drop at any significant rate due to improved consumer earning, unemployment rates being at an all-time low and acute housing shortages putting housing in high demand. Coupled with high housing costs is an inflation rate of 7.274% and a federal reserve rate of 5%. These increased costs have reduced the dollars available to consumers for discretionary spending.

Beacon Economics describes the California State Budget as “Boom and Bust,” explaining that in the past 2 years, the Governor reported a historic \$102 billion budget surplus. That outlook quickly changed with current projections reflecting a \$22.5 billion deficit, and the Legislative Analyst’s Office predicting the deficit will be much greater.

While some believe that the state may be able to avoid a recession in 2023, the County of Humboldt is being impacted significantly by the reduced spending capability of its residents, coupled with the crash of the cannabis market. According to HdL Companies, the unincorporated area’s sales receipts from October through December of 2022 were 11.1% below the fourth sales period in 2021. As people slowly return back to their workplace and travel, services stations continue to see positive returns while gas prices remain moderately high. The garden and agricultural supply companies continue to be adversely impacted, having the biggest declines. Restaurant sales at casual eating and quick services establishments were weak this quarter as patrons started to slowly adjust to inflation cost related to food and gas prices. Measure Z, the voter-approved transaction tax receipts experienced similar declines. Overall, taxable sales for all of Humboldt County declined in the 4th quarter of 2022 by 5.7% over same period in 2021.

FY 2022-23 General Fund Year-End Estimates

The General Fund contains the majority of the county programs. This fund is the source of discretionary money derived from local revenue sources, such as property tax, and is available to be spent on local needs. Subsequently, the General Fund is also the most at risk in times of economic downturns.

It is estimated that there will be \$40 million available in the current fiscal year to finance General Fund

activities. It should be noted that this year's beginning fund balance is still not fully known as the Auditor-Controller continues to catch up on many years of delinquent financial transaction postings, a circumstance that has made it challenging to prepare for the impending economic downturn.

The Auditor-Controller is currently performing the audit of FY 2020-21, while simultaneously closing FY 2021-22. Both audits are expected to be completed by the fall, putting the Auditor's Office back on track for the FY 2022-23 year-end closing. The Auditor-Controller's Office should be commended for this monumental undertaking.

In FY 2022-23, discretionary revenues were budgeted at \$74.8 million. As the fiscal year comes to a close, staff estimate discretionary revenues to be \$71.3 million, \$3.5 million less than budget. This shortfall is due in large part to reductions in sales and cannabis excise tax revenues.

General fund expenditures were budgeted at \$90.8 million. Year-end estimates reflect expenditures of \$86.9 million, a savings of \$3.9 million. These savings are in large part associated with the shift of the remodel in the Auditor-Controller's Office to the finance plan and salary savings in the Probation Department, as well as savings on Inmate Medical Services due to one-time funding through the American Rescue Plan Act.

Overall, there is an anticipated shortfall in FY 2022-23 of \$15.58 million.

FY 2023-24 General Fund Budget Outlook

In FY 2023-24, General Fund revenues are estimated to be \$68.4 million, a reduction of \$6.4 million over the prior year. This reduction is primarily attributed to the suspension of the Cannabis Excise Taxes and reductions in sales tax revenues.

Including the County Administrative Officer (CAO) Recommended Additional Funding Requests, expenditures are estimated to be \$86.6 million, a reduction of \$4.2 million over the prior year. This is primarily associated to a reduction in the Contribution to Reserves. In FY 2022-23, a contribution of \$5 million was budgeted, while in FY 2023-24 there is no contribution recommended.

Accordingly, the chart below indicates the estimated fund balance at the end of FY 2023-24 to be \$6.6 million, following a significant structural deficit in FY 2023-24 of \$17.8 million, coupled with the spend down of the \$40 million in fund balance that is estimated to be available at the beginning of the current fiscal year.

Estimated Beginning Fund Balance for FY 2022-23 2023
Estimated FY 2022-23 Use of Fund Bal (\$15,585,385)
Estimated Discretionary Revenue for FY 2023-24 2023-24
Estimated Expenditures for FY 2023-24 (\$86,660,861)
Estimated Year-End Fund Balance for FY 2023-24 2024

Additional Requests for General Fund Appropriations (ARGFA)

On Feb. 7, 2023, your Board directed staff to accept Additional Request for General Fund Appropriations (ARGFA) that prevented layoffs. The prospect of budget cuts and potential layoffs has created uncertainty amongst staff who are unsure about their long-term employment stability. To provide more assurance for staff, the CAO is asking for your Board’s guidance prior to the budget hearings taking place on June 12, when these considerations would typically be discussed.

A total of 27 ARGFAs were submitted through the FY 2023-24 budget process, six for one-time funds and 21 ongoing funding requests, for a total of \$10,855,023. Additionally, one request was submitted to request an exception of \$300,000 which has typically been contributed to the General Fund. Those requests are detailed in Attachment 2 and include:

Additional Requests for General Fund App			One-Time	Ongoing	Alternative Options
1	1100	101 Board of Supervisors		173,587	
2	1100	101 Board of Supervisors	76,500		
3	1100	111 Auditor/Controller		345,720	
4	1100	113 Assessor		204,260	
5	1100	121 County Counsel		172,604	
6	1100	130 Human Resources		121,262	
7	1100	130 Human Resources		130,781	
8	1100	140 Clerk-Recorder-Elections - Option 1 (includes 101)		1,708,100	
8.a	1100	140 Clerk-Recorder-Elections - Option 2			154,800
9	1100	162 Public Works	50,000		
10	1100	168 Public Works - County Surveyor	147,106		
11	1100	181 County Administrative Office - E Promotion	70,000		
12	1100	199 County Administrative Office - E Headwaters		194,878	
13	1100	199 Contributions - Other	5,000		
14	1100	219 Public Defender		466,320	
15	1100	221 Sheriff		1,350,203	
16	1100	221 Sheriff		377,150	
17	1100	221 Sheriff		27,451	
18	1100	221 Sheriff - Public Administrator		313,603	
19	1100	243 Sheriff - Jail		312,851	
20	1100	243 Sheriff - Jail SWAP		301,206	
21	1100	246 Public Defender - Conflict Counsel		262,800	
22	1100	262 Planning and Building - Building		730,581	
23	1100	269 Planning and Building - Code Enforcement		346,537	
24	1100	277 Planning and Building - Planning	100,000		
25	1100	277 Planning and Building - Planning		930,871	
26	1100	282 Planning and Building - Advance Planning		283,045	
27	1100	632 Cooperative Extension		50,562	
Totals			448,690	6,406,327	
Total ARGFA				10,855,000	

Of the requested ARGFAs listed above, the County Administrative Office recommends funding 18 requests for a total of \$8,690,401. These recommendations are based on the direction provided by your Board to prioritize requests that prevent layoffs. Nearly 98% of the recommended requests represent ongoing county costs which will continue to be the responsibility of the General Fund should other funding opportunities or cost cutting strategies not be implemented over the next year. It should be noted, however, that while the requests recommended for funding are classified as “ongoing,” there is not enough revenue projected in FY 2024-25 to sustain funding, and additional actions must be taken in order to stabilize the General Fund in the future should your Board fund the recommendations.

Immediate Options to Cut Costs

With a structural deficit of \$17.8 million anticipated in FY 2023-24, \$8.6 million in ARGFAs associated with the prevention of layoffs and the spend down of all but \$6.5 million in fund balance, significant action needs to be taken to begin reducing ongoing costs and to continue the efforts which will prevent layoffs.

Your Board has taken significant steps over the past 2 years to address pay deficiencies and inequities

across all bargaining units. In addition, the CAO and Human Resources has contracted with Municipal Resource Group (MRG), to develop a multi-phased approach to addressing several years of minimum wage compaction and misalignment in the county's classification and compensation structure. On Dec. 22, 2022, your board approved the implementation of MRG's Phase 1, accomplishing compliance with 2023 California minimum wage and establishing 5% differentials in the career ladders impacted by minimum wage. On the May 23 agenda, your Board will consider implementation of Phase 2 to remedy severe compaction between classifications and to address severe misalignment in the Social Services Branch of the Department of Health and Human Services.

All county staff have received a minimum cost of living increases in pay of 9.5%, with an additional 2.5-3% taking effect in January 2024. In addition, assuming approval to implement MRG's Phase 2, 146 additional classifications will have received equity adjustments ranging from 0.5% to 22%, with an overall average equity adjustment of 7.7%. These adjustments have been made in addition to the previously mentioned cost of living increases. While these pay adjustments were necessary, it has placed great strain on the General Fund. Your Board has a goal of having better compensated and highly trained employees. However, to do so, it will become necessary to reduce the overall size of the workforce due to the aforementioned declines in revenues. Stable employment of local residents is an imperative, not only for a healthy and thriving economy but also for the county as an agency that is the largest employer in Humboldt County. To reduce the structural deficit in the General Fund and to prepare the organization for difficult budget years to come, immediate action is recommended to capitalize on workforce attrition and to stabilize staffing costs.

Accordingly, the CAO recommends the following actions be considered by your Board for immediate implementation:

Moratorium on Personnel Action

The CAO recommends that your Board authorize a moratorium on any and all personnel actions (following implementation of Phase 2 of the Municipal Resource Group's Classification and Compensation Plan) to modify pay (including advance step requests and out of class pay), reclassify positions, and/or position allocations that are not demonstrated to be net neutral (will not cause an increase in expenditures), and are not funded with state/federal dollars, on an ongoing basis. This is not to say that these actions will be prohibited or discouraged, if found to be necessary by Human Resources, however it will be required that other budget actions, such as the deallocation of vacant positions or demonstrating that the costs will be fully funded through state or federal dollars, occur simultaneously to ensure that ongoing costs for staff do not increase.

Hiring Freeze

The CAO recommends that your Board declare a freeze on hiring staff in the General Fund, subject to an exception for essential and critical open positions, effective immediately and continuing through the end of FY 2023-24. It is further recommended that when an exception is granted and where possible, that your Board encourage departments to conduct a promotional only recruitment. This will encourage internal advancement opportunities while not increasing the overall number of filled positions. Finally, your Board should consider an exemption for sworn personnel that are required to fulfill state, federal or local (via ordinance) mandates. Operation of and providing security for critical facilities are some of

the mandatory services required, and the sworn personnel needed to carry out these services have typically experienced higher than normal vacancy rates. Allowing for this exemption will ensure that hiring of these required sworn personnel can be done so quickly and at the discretion of the department head.

Options to Explore for Future Cost Savings

While there are immediate cost savings mechanisms available to your Board, there are other options that should be considered given the magnitude of the structural deficit and cost reduction requirements. The options discussed below are detailed simply to gain Board insight on what might be palatable. Should your Board provide direction to explore any or all of these options, staff will return with additional information regarding potential implementation plans and financial impacts. It should also be noted that many, if not all, of these options may also require a meet and confer with labor unions to discuss impacts. Accordingly, these recommendations are merely provided for discussion purposes.

Mandatory Furlough

One cost saving measure to explore is mandatory furloughs. The Board has previously authorized the approval of voluntary furloughs as a cost saving measure for departments. However, this has not been widely utilized and is anticipated to offer minimal savings in the current or future fiscal years. Should mandatory furloughs be an option your Board would like to explore, the following are some considerations staff would examine:

- Closing all non-essential offices one or two Fridays a month (one day equals a reduction in pay of approximately 3%). An option like this could also offer other ancillary cost savings such as reduced energy costs. The county's Continuity of Operations Plan could be utilized to identify critical services.
- Consider cancelling the Board meetings following a furloughed Friday.
- Considerations of socio-economic impacts to provide options for staff who would be disproportionately impacted by such a mandate.
- Considerations for staff who are nearing retirement to prevent long-term impacts to pay.

Voluntary Separation Incentive Program

In FY 2010-11 and 2011-12, the county created the Voluntary Separation Incentive Program which provided a cash incentive to employees to vacate positions, thereby creating vacancies and increasing salary savings. There was no requirement to retire or be of a minimum age to participate in this program, as creating the vacancy was the primary goal. Separation required department head approval, required the position to remain vacant for three years and provided a larger incentive for people who separated earlier in the fiscal year. This program allowed for 24 individuals to vacate their positions, requiring an overall incentive payment totaling \$233,000, with an approximate savings to the General Fund of \$1.8 million in salaries.

Reorganization of Departments

A necessary step in managing our resources to ensure sustainability of services, and ensuring higher performance is to periodically evaluate the manner in which the county delivers its services. This process also allows the county to identify opportunities to restructure in an effort to capitalize on

efficiencies and to reduce duplication of efforts. This task is one that is often not prioritized, due to competing deadlines and other mandates, however during times of economic downturn, such an analysis can become more imperative. The last significant reorganization analysis was done in 2016. Through that analysis the following potential reorganizations were identified:

1. Combine Environmental Health, Planning & Building, and most Public Works functions into a new department (tentatively titled “Development & Resource Management”). Move Code Enforcement from County Counsel to this new department.
2. Separate Motor Pool and Facilities Management from Public Works and re-form the prior General Services Department; remove Purchasing and Information Technology (IT) from the CAO and place them into General Services.
3. Place the major public information and legislative functions of DHHS under the CAO.
4. Ask voters to combine the elected offices of Auditor-Controller and Treasurer-Tax Collector into a new Finance Department; remove Revenue Recovery from the CAO and place it into Finance.
5. Restructure the Aviation Division to enhance the focus on airports as an economic development tool.

Many of these recommendations were implemented, or still remain as an opportunity for implementation that staff continue to actively explore. Should your Board choose to explore additional opportunities for operational reorganization, the County’s Chief Operations Officer would seek to form a working group comprised of department heads and county staff to develop recommendations for Board consideration. This work would be a significant undertaking and would likely return to your Board through the FY 2023-24 Mid-Year Budget Report (February 2024) with a plan to implement in FY 2024-25. This working group would likely focus on departments with the most significant shortfalls (those requesting ARGFAs this year) and could help to identify non-critical or unmandated services.

Evaluate Unmandated Services

There are many services and functions performed by the county that are not mandated, and thus come with no obligation or funding support. When considering workforce reductions, it is important to consider those impacts on employees and their workloads. It may become necessary to reduce overall service levels to effectively manage increased costs and reductions in revenues. Your Board could direct departments (through the previously mentioned working group) to begin evaluating what services could be eliminated and the potential community impacts to those service reductions. This evaluation would take significant time and is better suited for addressing the FY 2024-25 budget shortfall. Accordingly, your Board could direct departments to return at Mid-Year with a plan to reduce unmandated services.

Deallocating Vacant Positions

For 2 years General Fund departments have not received increases to their base General Fund allocations and have been directed to hold vacancies where possible to balance their budgets. Accordingly, there are positions that are reflected as allocated with no funding source attached to them. Departments have also seen significant long-term vacancy rates. These two situations, compounded, make personnel management difficult and reflects an inaccurate picture of the overall staffing needs of the organization. Seeing no financial improvement on the horizon, your Board could direct staff to evaluate the positions have been vacant and/or unfunded for more than 2 fiscal years and return with

recommendations to deallocate those positions.

Expenditure Evaluation and Restrictions

Reevaluating expenditures for which departments have become complacent (due to previous difficulties in tracking expenses and record periods of economic growth) could offer additional savings. This is not to say departments have been wasteful, however during difficult financial times, priorities change on where funds are best spent. Departments could evaluate all of the following to determine what expenditures, products and/or services are not critical to identify areas for budget savings. The following are expenditure categories for consideration:

- Professional Services
- Travel (reinstitute the CAO approval process on out of state travel)
- Extra Help
- Overtime
- Utilities and device utilization
 - Cell phones
 - Tablets and Computers
 - MiFi
- Fixed Assets
- Special Department Expense

Measure Z

As reported to your Board on April 25, Measure Z is also experiencing significant strain and may not be able to support county staff in FY 2024-25 if action is not taken in the current fiscal year. Your Board at that meeting created a Board Ad Hoc to bring information back to the Board on which Measure Z positions allocated in FY 2022-23 can be deallocated, and to develop a percentage-based allocation scenario that potentially includes cities and those who have historically received funding in the past.

The 16 positions allocated in FY 2022-23 will require more than \$1.6 million if fully funded next year. Since the April 25 meeting, Public Works, which had one position filled, has worked to fill two more of its positions, and would require all four of the positions allocated to carry out the brush removal work for which those positions were allocated. The other 12 positions remain unfilled, representing a savings of \$1.2 million.

The positions that were allocated in FY 2022-23 are as follows:

Dept	Positions	Vacant/ Filled
Public Works (298)	ROAD MAINTENANCE SUPERVISOR	Filled
	ROAD MAINTENANCE WORKER III	In process
	ROAD MAINTENANCE WORKER III	In process
	ROAD MAINTENANCE WORKER III	Vacant
CAO (300)	ADMINISTRATIVE ANALYST I/II	Vacant
District Attorney (295)	IT TECHNICIAN I	Vacant
	CRIME ANALYST	Vacant
	CRIME ANALYST	Vacant
	CRIME ANALYST	Vacant
DHHS (293)	MENTAL HEALTH CASE MANAGER I/II	Vacant
	MENTAL HEALTH CASE MANAGER I/II	Vacant
	MENTAL HEALTH CLINICIAN I/II	Vacant
	MENTAL HEALTH CLINICIAN I/II	Vacant
	PEER COACH I/II	Vacant
	PEER COACH I/II	Vacant
	SUPERVISING MENTAL HEALTH CLINICIAN	Vacant

In addition, the Citizens’ Advisory Committee on Measure Z Expenditures has since met to review that committee’s ad hoc evaluation of the process it uses to develop recommendations on projects that should be funded by Measure Z revenues. The qualitative recommendations they approved include:

- Requiring agencies to submit a self-audit on personnel usage, identifying the actual time that a position funded by Measure Z had an employee fully performing the services
- Creating a criteria for allowable costs
- Creating a mechanism to allow the committee to recommend partial funding of applications
- Require agencies to report on other funding sources they pursue to replace Measure Z funding

One of the other recommendations the committee approved still needs to come before the Board, but each of the recommendations, if adopted, would have direct fiscal implications for county departments. Those recommendations are as follows:

- Adopt a stance that the committee will not recommend new, ongoing county positions be funded with Measure Z. This recommendation can be approved at the committee level.
- Develop a reserve policy of 16% of ongoing revenue. This will come before your Board at a later date.
- Establish a target of 67% of total revenue be allocated each year to county departments, to be achieved by FY 2026-27.

Provide direction to staff on the deallocation of positions allocated last fiscal year
 County departments this year will account for approximately 93% of total Measure Z revenue

available. In light of the committee's desire to return to a historic trend of 67% of total revenue, potential action your Board could take today related to Measure Z includes providing direction to staff on which Measure Z positions to deallocate that were allocated in FY 2022-23 and remain vacant.

FINANCIAL IMPACT:

As discussed above.

Narrative Explanation of Financial Impact:

As discussed above.

STAFFING IMPACT:

As discussed above.

Narrative Explanation of Staffing Impact:

As discussed above.

STRATEGIC FRAMEWORK:

This action supports the following areas of your Board's Strategic Framework.

Core Roles: Choose an item.

New Initiatives: Manage our resources to ensure sustainability of services

Strategic Plan: N/A

OTHER AGENCY INVOLVEMENT:

N/A

ALTERNATIVES TO STAFF RECOMMENDATIONS:

At Board discretion.

ATTACHMENTS:

Attachment 1 - Hiring Freeze Exception Form

Attachment 2 - Additional Request for General Fund Appropriation

PREVIOUS ACTION/REFERRAL:

Board Order No.: H-1

Meeting of: 2/9/16

File No.: 16-0156