



COUNTY OF HUMBOLDT

Legislation Text

File #: 24-762, **Version:** 1

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

Vote Requirement: Majority

SUBJECT:

General Fund Budget Outlook and Budget Ad Hoc Committee Report

RECOMMENDATION(S):

That the Board of Supervisors:

1. Accept a staff presentation on the budget outlook and projection for the General Fund through fiscal year (FY) 2026-27; and
2. Receive a report out from the Budget Ad Hoc Committee.

STRATEGIC PLAN:

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

Area of Focus: A Diverse, Equitable & Robust Economy

Strategic Plan Category: 2001 - Promote strong economic resiliency and growth

DISCUSSION:

On Feb. 6, 2024, your Board received the Fiscal Year (FY) 2023-24 mid-year budget presentation and provided the County Administrative Officer (CAO) with parameters for preparing the FY 2024-25 county budget. During that presentation, staff presented the estimated ending fund balance for FY 2023-24 at nearly \$26 million, of which \$5.3 million is Measure Z funds, therefore \$20.7 million is estimated to be available to fund FY 2024-25.

County Administrative Office staff are still reviewing the FY 2024-25 budget submissions including updated FY 2023-24 year-end estimates, though initial review projects improvement in the estimated FY 2023-24 ending fund balance for the General Fund.

At the request of the Budget Ad Hoc Committee, staff prepared a General Fund projection to determine approximately when the General Fund would run out of fund balance. Additionally, the Ad Hoc members requested an estimated amount that would need to be cut by all General Fund departments at that time. The initial projection prepared by staff made the following assumptions:

- 3% increases in salary and benefit costs and internal service fund charges for FY 2025-26 and FY 2026-27 due to regular step increases and benefit costs increases, other expenditures to stay the same
- 2% increases in discretionary Property Tax Revenue for FY 2025-26 and FY 2026-27
- Proposition 172 sales tax revenue based on projections statewide provided by HdL Companies
- Sales taxes based on HdL projection for FY 2025-26, but just a base 2% increase for FY 2026-27 as not available from HdL
- Reduced General Fund interest income over time due to reduction in fund balance
- Reduced Tax Loss Reserve Fund (TLRF) revenue in FY 2025-26 due to using up most of the built-up TLRP fund balance in

- prior years
- All other revenue to remain the same.

The initial projection resulted in a \$14.3 million deficit entering the FY 2026-27 budget year with no fund balance available. A deficit of this size, if spread across all General Fund departments, would require nearly 20% budget cuts. Budget cuts at this level are not attainable without reductions in staffing and services.

1100 - General Fund (without Measure Z)	
FY 2024-25 Estimated Beginning Fund Balance	20,679,256
FY 2024-25 Estimated Use of Fund Balance	<u>(9,590,000)</u>
FY 2025-26 Estimated Beginning Fund Balance	11,089,256
FY 2025-26 Estimated Use of Fund Balance	<u>(11,830,000)</u>
FY 2026-27 Estimated Beginning Fund Balance	(740,000)
FY 2026-27 Estimated Use of Fund Balance	<u>(13,600,000)</u>
FY 2026-27 Total Deficit	<u>(14,340,000)</u>

This is simply a projection and there are number of factors that could improve this scenario:

- Property taxes have continued to perform better than anticipated, should this pattern continue at 3% rather than 2% annual increases through FY 2026-27, this could provide an additional \$660,000
- Salary and benefit costs and internal service fund charges could experience smaller increases than 3%, just a reduction to 2% increase could provide an additional \$2.7 million
- FY 2023-24 ending fund balance could be higher than anticipated based on revenue improvements or departments efforts to provide savings to the General Fund

As has previously been emphasized in the FY 2023-24 budget cycle, it is critical that the General Fund work toward an environment with minimal reliance on fund balance. This projection places a timeline on the urgency for action towards this goal. In FY 2023-24, your Board approved a Voluntary Separation Incentive Program (VSIP), voluntary furloughs and a hiring freeze which will continue to provide savings in FY 2024-25. Your Board may want to utilize these savings mechanisms again in future years. Finding opportunities to reduce costs through the attrition of staff is the most effective strategy to work toward a balanced budget. In addition, at the mid-year budget presentation, your Board directed staff to explore reorganization opportunities with departments. Staff will return to your Board to present reorganization options on June 3, 2024.

SOURCE OF FUNDING:

All county funds

FINANCIAL IMPACT:

The financial impact as described in the staff report may result in a budget deficit as much as \$14.34 million entering the FY 2026-27 year in the General Fund (1100), with no anticipated fund balance available. This could result in as much as 20% expenditure reductions across General Fund departments.

STAFFING IMPACT:

While accepting this staff presentation today does not have an immediate staffing impact, the impact of expenditure reductions may result in staffing reductions in future years.

OTHER AGENCY INVOLVEMENT:

All county departments

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion.

ATTACHMENTS:

N/A

PREVIOUS ACTION/REFERRAL:

Meeting of: 2/6/2024

File No.: 24-34