



COUNTY OF HUMBOLDT

Legislation Text

File #: 24-902, **Version:** 1

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

Vote Requirement: Majority

SUBJECT:

Proposed Fiscal Year (FY) 2024-25 Budget

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive and review Humboldt County's Proposed FY 2024-25 Budget;
2. Approve the Proposed Budget FY 2024-25 appropriations subject to modifications and staff direction for adoption of the final budget on June 25, 2024;
3. Adopt a Resolution authorizing an Inter-Fund Loan for the Forest Resources and Recreation Fund (1710);
4. Approve the transfer of \$2,000,000 in FY 2024-25 from the Tax Loss Reserve Fund (3010) to the General Fund;
5. Approve a hiring freeze for all departments that receive an Additional Request for General Fund Appropriation for personnel costs in FY 2024-25 and funds that have negative estimated fund balances in FY 2024-25 and direct those departments to request exemptions to the hiring freeze from your Board;
6. Approve the prepayment of the FY 2024-25 CalPERS Unfunded Accrued Liability (UAL) contribution in the amount of \$33,906,491;
7. Authorize department heads to continue to approve voluntary unpaid furloughs for employees under their appointment authority for FY 2024-25;
8. Direct the Auditor-Controller to create a General Fund Trust for the purpose of the housing trust fund;
9. Direct the County Administrative Officer to return to your Board at mid-year with considerations of a contribution to the General Reserve;
10. Direct the County Administrative Officer to return to your Board on June 25, 2024, to consider the adoption of the Final Budget for FY 2024-25; and
11. Take other action 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:

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.

This report has been divided into three key sections:

1. An overview of the state and federal economic conditions impacting the county in the coming year;
2. A review of the FY 2024-25 Proposed Budget including additional requests for General Fund appropriations, funds with negative fund balances, and major revenue sources for consideration; and
3. Policy decisions for your Board to consider in evaluating the county's current and projected financial conditions.

Section 1: Economic Outlook

National Economy

Both the Congressional Budget Office and Beacon Economics reports offer a cautiously optimistic outlook for the US economy in 2024, predicting moderate growth despite potential risks and misleading media narratives. The US economy is expected to experience steady growth throughout 2024, with a projected Q4-2023 growth rate of 1.2%, followed by forecasts ranging from 1.3% to 2.4% in the following quarters. This growth is fueled by several factors:

- **Strong Consumer Spending:** Consumers, with a healthy 2.4% adjusted spending growth in 2023 (and forecasted to remain near there in 2024), remain confident due to rising wages, fueled by a tight labor market with a 3.8% unemployment rate in Q4-2023. Additionally, low credit card debt suggests consumers have more room to spend.
- **Savings Buffer:** Government stimulus measures and reduced spending opportunities during the pandemic may have led many households to accumulate significant savings. This nest egg is providing a financial cushion for consumers.
- **Stable Industrial Production:** Beyond simply maintaining consistent output levels, industrial production is also expected to benefit from ongoing infrastructure projects, business investments in automation and the gradual recovery of global supply chains.

While the outlook is positive, the reports warn of a potential financial bubble. Asset prices, like stock market valuations and home prices, have been inflating rapidly. This rapid inflation can be a sign that asset values are becoming disconnected from their underlying fundamentals. If this bubble bursts, it could lead to significant economic damage. And despite concerns about inflation, a recession is unlikely in 2024. Inflation, measured by CPI, is expected to gradually decrease from 3.2% in Q4-2024 to 2.4% by Q4-2024. While the Federal Reserve might consider raising interest rates to cool down inflation, it is unlikely to cut them in 2024 due to strong consumer demand.

Federal Budget

The US budget faces a perfect storm of rising costs and stagnant revenue. The CBO's 10-year Outlook report continues to paint a concerning picture for the nation's long-term fiscal health.

At roughly \$1.6 trillion in federal fiscal year (FFY) 2024, the deficit is projected to balloon by 2034 to \$2.6 trillion, or 6.1% of Gross Domestic Product (GDP), which is the total value of all goods and services produced in the US. This is significantly higher than the historical average of 3.7%. Federal expenditures in FFY 2024 are \$6.5 trillion, or 23.1% of GDP, while revenues are \$4.9 trillion. The 50-year average, measured as a percentage of GDP, is 21% and CBO expects the US will exceed that amount in each of the next 10 years. Costs on mandatory expenses like Social Security and Medicare will increase due to an aging population, however, discretionary spending as a share of GDP is projected to fall to historic lows.

The CBO predicts the debt will reach a record 116% of GDP by 2034. Starting next year, net interest costs on that debt are greater in relation to GDP than at any point since at least 1940. Revenues, meanwhile, are projected to fall below their 50-year average of 17.3% of GDP in 2025, but hover slightly above thereafter. Receipts from individual income taxes fell sharply in 2023, from a historic high in 2022, in part because capital gains were smaller and because the Internal Revenue Service extended some tax payment deadlines. As those delayed payments are made, revenues are anticipated to rise in 2024, and rise again in 2026 and 2027 following the scheduled expiration of certain provisions of the 2017 tax act.

The CBO's current projections show a slightly lower deficit for FFY 2024 (improvement of \$0.1 trillion, or 4%) and for the next decade (improvement of \$1.4 trillion, or 7%) compared to previous forecasts, due to a combination of the Fiscal Responsibility Act and other legislation that will reduce \$2.3 trillion from discretionary spending.

California's Economy: A Mixed Bag with Potential

Despite the often-negative public perception, California's economy is showing positive signs with strong national economic conditions as a backdrop. However, the state faces unique challenges that need to be addressed.

California's job growth lags behind the national average, with payroll employment growing by 2% from 2019 to 2022, compared to the US 3.7% increase. However, median household income in California grew significantly (9.2% from 2019 to 2022) compared to the US (8%). Interestingly, the state's labor force has actually contracted by 2% in the same period. This suggests job growth despite a shrinking workforce, potentially due to an aging population and retirements. Despite inflation concerns, real incomes in California have actually increased over the past four years, with the fastest growth seen among lower-skilled workers. According to the US Bureau of Labor Statistics (BLS), weekly earnings in California grew by 23% from 2019 to 2023, slightly higher than the 20% rise in consumer prices. This is partly due to a higher minimum wage and increased spending in lower-income regions.

While California's housing costs are high, the rent-to-income ratio in 2022 (32.7%) was actually slightly lower than in 2017 (33.2%). In comparison, Texas is at 29.2%. The state's recent population decline is modest (0.33% per year) and mainly driven by a slowdown in growth, not a mass exodus. The state needs to significantly increase housing permits to address this issue and ensure continued economic growth. Annual permits remain at 120,000 per year and not close to the 3 million housing units the Governor promised. This lack of housing supply is contributing to the high housing costs and making it difficult for young professionals and families to afford to live in the state.

State Budget

The Governor's May Revision, released in early May, was a shock to local government in the form of widespread program reductions. The Governor's revised budget states a \$27 billion budget shortfall, though the Legislative Analyst's Office (LAO) estimates that the revision is addressing a larger deficit of \$55 billion, slightly reduced from the January budget estimate of \$58 billion. Like the county, the State is now facing a large budget deficit and is adjusting spending accordingly. Last year, the State primarily relied on reserves to solve the budget deficit. Recognizing that there is not a long-term revenue fix, the State is reducing expenditures.

Similar to expenditure reduction methods that the county has used, the revision includes an increase in the one-time, vacancy reduction for General Fund state departments which results in a nearly 8% reduction across General Fund operations. Overall, the revision is focused on preserving ongoing core services in the long-term. For the county, this is primarily impactful to the Department of Health and Human Services (DHHS). While the revision does not reduce benefits to eligible recipients of aid, it reduces funding for services. DHHS estimates that the May revision reduces their annual funding by about \$5 million spread across major programs including Public Health, CalWORKs, Adult Protective Services, and Housing, among others. Staff are continuing to monitor State budget actions and impacts to the county budget.

Section 2: Fiscal Year (FY) 2024-25 Proposed Budget

FY 2024-25 Budget Timeline

- On Feb. 6, 2024, as part of the Mid-Year Budget Review, your Board set parameters for the development of the FY 2024-25 budget for General Fund allocations and the budget calendar. The parameters included direction to set departmental General Fund allocations as status quo to FY 2023-24 with adjustments to increase allocations to include the FY 2023-24 ongoing, Board-approved additional requests for General Fund appropriation (ARGFA) with a 20% reduction and a reduction by any applicable Voluntary Separation Incentive Program (VSIP) with an exemption from the 20% reduction to departments that participated in the VSIP. In addition, your Board directed staff to evaluate General Fund contributions to other funds in budget 1100-199, deallocate FY 2024-25 unbudgeted General Fund positions, limit ARGFA requests to one-time expenditures, set departmental contributions to Public Agency Retirement Services (PARS) to 2% of annual salaries, suspend the annual contribution to the Deferred Maintenance Trust Fund (3464) for FY 2024-25 and reallocate any remaining ARPA funding to previously allocated ongoing costs.
- Preparation of the proposed budget began on Feb.21, 2024, when the County Administrative Office (CAO) staff presented to departments the parameters for development of the FY 2024-25 budget requests. Departments were asked to submit their requests to the CAO by Apr. 2, 2024. CAO staff and the Budget Ad Hoc (Supervisors Arroyo and Bushnell) met with each department during this time. The CAO reviewed the budget and additional funding requests from April through June 2024.
- Presentation of the proposed budget is before your Board today.
- Public Hearings on the proposed budget are scheduled to be held on June 10, 2024.
- The final budget is anticipated to be adopted on June 25, 2024.

FY 2024-25 Budget

Today, the total proposed budget (or spending plan) before your Board for FY 2024-25 is \$606,724,129 (excluding internal service funds and enterprise funds). The total proposed budget represents an increase of \$27,453,621 in expenditures, or 4.7% more than the budget your Board adopted for FY 2023-24. This number is higher due to several accounting changes implemented over the last year which has resulted in a reduction in the use of transfers. In the FY 2023-24 budget, transfers accounted for an additional \$14,359,196 in expenditures recorded as Other Financing Uses. Taking this change into account results in a total budget in FY 2023-24 of \$593,629,704, resulting in an increase in FY 2024-25 of \$13,094,425, or 2.2% over the prior year.

The FY 2024-25 budget proposes that your Board allocate \$165,269,298 in General Fund expenditures, which is an increase of \$11,079,349, or 7.2%, from the prior year. As described in total budget, due to accounting changes over the last year, \$9,589,351 of additional expenditures were recorded as Other Financing Uses. Taking this change into account, the total General Fund expenditure for FY 2023-24 was \$163,779,300, resulting in an increase in FY 2024-25 of \$1,489,998, or 0.9% over the prior year.

Despite the increase described above in General Fund expenditures, the county has worked together collaboratively during this budget process to reduce expenditures and the increase does not accurately reflect that work. Of the total expenditures, \$4.7 million is a use of Measure Z fund balance. Additionally, \$1.8 million is due to utilizing a one-time funding source, American Rescue Plan Act (ARPA) funds, in FY 2023-24 for Jail Medical (Budget Unit 1100-490) and \$538,680 is due to an increase in Indigent Defense (1100-250) mandated costs. General Fund wages and benefits decreased by an overall (\$3.2 million) or negative (3.3%). Wages and benefits make up a lower percent of the General Fund expenditure budget at 57% of total expenditures, as compared to 63% in the prior year adopted budget.

In the General Fund, projected revenues for FY 2024-25 are \$141,678,010, which is an increase of \$12,068,937 or 9.3% from FY 2023-24. Discretionary General Fund revenue is anticipated to increase \$3,976,540 over the FY 2023-24 budget due to increases in anticipated property taxes, transient occupancy tax, and interest revenue. In order to present a balanced budget, the current budget proposes the use of \$18,569,839 of fund balance from the General Fund, of which \$4,706,739 is Measure Z. The FY 2023-24 adopted budget did not include a use of Measure Z fund balance. The FY 2024-25 recommended use fund balance of \$13,863,761 is a reduction in non-Measure Z fund balance use from the FY 2023-24 adopted budget of (\$4,523,900) or (24.6%). As previously presented, this budget deficit can be funded with fund balance in FY 2024-25 but will be unsustainable ongoing. In future years, the county will need to both increase revenue and decrease expenditures.

Estimated Fund Balance 1100 - General Fund	
FY 2023-24 Beginning Fund Balance	38,647,446
Estimated Revenues	136,456,614
Estimated Expenditures	157,039,935
Estimated Other Financing Sources (Uses)	11,521,133
Estimated Use of Fund Balance	(9,062,188)
FY 2023-24 Estimated Ending Fund Balance	29,585,258
Estimated Revenues	141,678,010
Estimated Expenditures	165,269,298
Estimated Other Financing Sources (Uses)	5,021,449
Estimated Use of Fund Balance	(18,569,839)
FY 2024-25 Estimated Ending Fund Balance	11,015,419

General Fund Contributions to Other Funds and Agencies (Budget Unit 1100-199)

At the mid-year budget presentation, your Board directed staff to review General Fund contributions

to other funds and agencies through budget unit 1100-199. These contributions include ongoing allocations. Of the \$6,341,286 in ongoing contributions, \$5,533,661 were determined to have an associated mandate, match, or contract. Of the remaining \$807,265, the CAO recommends funding \$693,700 (Attachment 3). Two allocations are not recommended:

- \$94,615 for the County Library for general Library use, a reduction from the previously annually allocated amount of \$153,000. This is not recommended as the Library fund has sufficient fund balance to maintain services without this funding.
- \$18,950 for DHHS-Public Health utilized as a fee subsidy for agricultural businesses. This is not recommended as an industry-based subsidy for which the General Fund is unable to support ongoing. DHHS-Public Health will not be negatively impacted as they can incorporate this into the fee schedule and charge out the cost previously covered by the General Fund.

1100-199 Ongoing Additional Funding Requests		
FY 2024-25		
Ongoing Requests	Request	Proposed
CAO Economic Development Director Salary	\$ 208,700	\$ 208,700
Public Works Natural Resources	\$ 20,000	\$ 20,000
DHHS-Public Health Tobacco Prevention	\$ 65,000	\$ 65,000
DHHS-Public Health Hazardous Materials		
Agriculture Fee Subsidy	\$ 18,950	\$ -
DHHS-Behavioral Health and First Five ACEs	\$ 400,000	\$ 400,000
County Library Contribution	\$ 94,615	\$ -
Total	\$ 807,265	\$ 693,700

Staff will seek direction on these requests from your Board through the Budget Hearings on June 10, 2024.

Additional Funding Requests

Departments originally submitted 31 Additional Requests for General Fund Appropriation (ARGFA) for a total of over \$5.4 million in requests. The CAO’s office worked with departments to find alternative funding sources including Deferred Maintenance and Finance Plan funds. Staff were able to identify \$1.8 million of alternative funding for six requests for necessary Courthouse and Jail facility maintenance and repair projects. In addition, the CAO utilized a new process of reviewing the ARGFAs with Department Heads and gathered their input on the priority of the requests. Department Heads utilized shared agreements to guide their decision making including the Board’s direction of one-time expenditures, the strategic plan, support for mandated services and support for reorganization and efficiency. Through this process, one request was withdrawn by the Sheriff’s Office reducing the

requests by \$455,000.

After these changes, the remaining 24 requests include \$1,178,644 in one-time requests and \$1,998,082 in ongoing requests for a total of \$3,176,726 (Attachment 2). The CAO is recommending 11 requests for a total of \$2,076,808 in the proposed budget. The CAO's office would typically recommend to not fund any additional requests due to the status of the General Fund and the outlook of upcoming years, however, in the interest of a ramp down approach, the recommended requests are based on a target fund balance use of \$14 million and on the priority established in collaboration with Department Heads. Furthermore, it is recommended that any ongoing requests be approved on a one-time basis and require analysis including another request, if necessary, in FY 2025-26. Staff recommend a hiring freeze on departments that receive ongoing personnel cost requests in FY 2024-25.

Staff will seek direction on these requests from your Board through the Budget Hearings on June 10, 2024.

Negative Fund Balances

Negative fund balances in other funds are a threat to the General Fund and negatively impact the interest earned by the General Fund. It is important the entire agency implement prudent fiscal practices to correct and prevent funds from having negative fund balances. Staff are recommending a hiring freeze for funds that anticipate a negative fund balance with their FY 2024-25 budget.

Social Services-1160

DHHS-Social Services 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 twelve 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. In December 2022, the timeframe for submission of the revised claim was changed from nine months to twelve months which delays reimbursement for those costs by an additional three months. The first claim this impacted was the adjusted claim for Quarter 2 of FY 2020-21.

As reported over the last year, DHHS-Social Services fund 1160 has gone negative. Staff previously reported that there were sufficient long-term receivables to cover this negative fund balance. Over the past several months, staff have determined that there are not sufficient receivables. They anticipate ending FY 2023-24 with a negative fund balance of (\$16.9 million). At this time, DHHS-Social Services, expects to receive \$3.9 million in long-term receivables during FY 2024-25. This will result in a continued negative fund balance of (\$13 million). This is a significant downturn from the previously reported outlook for fund 1160. DHHS staff are working to establish strategies to reduce expenditures and save discretionary revenue in order to remedy the negative fund balance.

Estimated Fund Balance 1160 - Social Services Administration	
FY 2023-24 Beginning Fund Balance	(16,221,241)
Estimated Revenues	127,651,126
Estimated Expenditures	128,300,533
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(649,407)
FY 2023-24 Estimated Ending Fund Balance	(16,870,647)
Estimated Revenues	150,894,379
Estimated Expenditures	150,894,379
Estimated Other Financing Sources (Uses)	-
Fund Balance Adjustments	
Anticipated Receivables	3,920,625
Estimated Fund Balance Adjustments	3,920,625
Estimated Use of Fund Balance	3,920,625
FY 2024-25 Estimated Ending Fund Balance	(12,950,022)

Behavioral Health-1170

DHHS-Behavioral Health reports no change to the estimates reported at the mid-year budget update, resulting in the Behavioral Health fund ending FY 2023-24 with a (\$5 million) negative fund balance. DHHS-Behavioral Health has been plagued by delays in the cost settlement process in which state and federal funding is received. In the current year, payment reform was implemented in which payments are supposed to be processed much timelier. As with any new process, implementation has had challenges including transitioning to a new claiming software and number of system issues at the state level.

DHHS-Behavioral Health reports outstanding cost settlement receivables of \$8.1 million. DHHS is continuing to work with the Department of Health Care Services (DHCS) on prior fiscal years' cost settlement processes to resolve this ongoing negative balance.

Estimated Fund Balance 1170 - Mental Health Fund	
FY 2023-24 Beginning Fund Balance	(4,404,927)
Estimated Revenues	67,903,845
Estimated Expenditures	68,522,301
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(618,456)
FY 2023-24 Estimated Ending Fund Balance	(5,023,383)
Estimated Revenues	70,238,836
Estimated Expenditures	70,238,836
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	-
FY 2024-25 Estimated Ending Fund Balance	(5,023,383)

Roads Fund-1200

The Roads fund is estimated to end FY 2023-24 with a negative fund balance of (\$8.5 million), increasing negative fund balance by (\$758,730). The Roads fund has struggled over the past decade and roadways continue to deteriorate, requiring substantial resources to maintain and repair failing infrastructure. In addition, recent storms have compounded the strain on the Roads fund as staff work to recoup disaster assistance funding from state and federal agencies, a process that can span many fiscal years and is not guaranteed to be successful.

Currently, Public Works reflects Federal Emergency Management Agency (FEMA) reimbursements of \$8.1 million to be outstanding. Disaster responses require utilizing funds that were planned for road maintenance reducing the amount of road maintenance that can be completed. Your Board directed staff to develop a local revenue measure for roads and essential services. This item will return to your Board in July. If approved, the measure will be placed on the November 2024 ballot.

Estimated Fund Balance 1200 - Roads	
FY 2023-24 Beginning Fund Balance	(7,758,845)
Estimated Revenues	41,226,930
Estimated Expenditures	42,629,407
Estimated Other Financing Sources (Uses)	643,747
Estimated Use of Fund Balance	(758,730)
FY 2023-24 Estimated Ending Fund Balance	(8,517,575)
Estimated Revenues	45,249,629
Estimated Expenditures	45,249,629
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	-
FY 2024-25 Estimated Ending Fund Balance	(8,517,575)

Natural Resources-1720

The Natural Resources fund in Public Works draws in millions of grant dollars every fiscal year. Annually, they receive a small General Fund contribution of \$20,000 for costs that cannot be claimed to grants. Over time, their fund balance has dipped into the negative with an anticipated negative fund balance of (\$220,090) at the end of FY 2023-24. They anticipate a small long-term receivable balance of \$68,223. This is not enough to cover the accumulated negative fund balance. Staff will work with Public Works staff to determine the next steps for this fund.

Estimated Fund Balance 1720 - Natural Resources	
FY 2023-24 Beginning Fund Balance	(220,090)
Estimated Revenues	14,440,776
Estimated Expenditures	14,440,776
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	-
FY 2023-24 Estimated Ending Fund Balance	(220,090)
Estimated Revenues	21,310,805
Estimated Expenditures	21,310,805
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	-
FY 2024-25 Estimated Ending Fund Balance	(220,090)

Economic Development-1120

At the mid-year budget update, staff presented that the Economic Development fund 1120, while still

positive was likely to dip into the negative as a result of unfunded project requests. To rectify some of this, Economic Development staff have included administration funding requests where appropriate and have turned down projects that do not have a funding source. While Economic Development has submitted a budget for FY 2024-25 that does not result in a negative fund balance, it is anticipated that it may not meet all obligations for Project Trellis. Staff continue to work on reconciling Project Trellis funds and anticipate requesting a budget adjustment in FY 2024-25 to ensure state obligations are met.

Estimated Fund Balance 1120 - Economic Development	
FY 2023-24 Beginning Fund Balance	722,907
Estimated Revenues	5,417,195
Estimated Expenditures	5,487,286
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(70,091)
FY 2023-24 Estimated Ending Fund Balance	652,816
Estimated Revenues	4,072,262
Estimated Expenditures	4,725,078
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(652,816)
FY 2024-25 Estimated Ending Fund Balance	(0)

Purchasing Fund-3555

As reported at the mid-year budget update, the Purchasing Fund had gone negative with an estimated negative fund balance of (\$40,579) at the end of FY 2023-24 as a result of higher than anticipated Cost Allocation Plan charges. This will be corrected in FY 2024-25 by increasing charges and implementing the best practice of including 60-day working capital in the ongoing fund balance.

Estimated Fund Balance 3555 - Central Services ISF	
FY 2023-24 Beginning Fund Balance	(42,247)
Estimated Revenues	461,861
Estimated Expenditures	460,193
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	1,668
FY 2023-24 Estimated Ending Fund Balance	(40,579)
Estimated Revenues	644,153
Estimated Expenditures	508,253
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	135,900
FY 2024-25 Estimated Ending Fund Balance	95,321

Measure Z

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.

On May 7, 2024, your Board reviewed the FY 2024-25 list of Measure Z applications as prioritized by the Measure Z Citizens’ Advisory Committee (Attachment 6). The Committee had \$4.1 million available to allocate in the FY 2024-25 process, \$3.6 million of fund balance and \$500,000 of anticipated additional revenues. There was additional fund balance due to underspending by county departments and a one-time accounting adjustment to accrue July and August sales tax revenues. The Committee’s recommendations funded the first five ranked projects, with \$45,665 of available funding. Your Board accepted the Committee’s recommendations, only adding the City of Arcata Juvenile Diversion Counselor project for the remaining available balance.

For FY 2024-25, staff are estimating \$13 million in revenues, keeping projections just under the estimated actuals in the current year. Staff base budgeted revenue for sales tax on projections provided by HdL Companies. HdL has years of experience in preparing projections and have traditionally provided the county accurate sales tax projections. Total county obligations, including carryforward projects and the Reserve account, are proposed at \$17,706,079.

Measure Z	
FY 2023-24 Beginning Fund Balance	7,920,867
Estimated Revenues	13,381,069
Estimated Expenditures	15,864,646
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(2,483,577)
FY 2023-24 Estimated Ending Fund Balance	5,437,290
Established Reserve	(864,000)
Budgeted Revenues	13,000,000
Budgeted Expenditures	16,842,079
Estimated Other Financing Sources (Uses)	-
Estimated Use of Fund Balance	(4,706,079)
FY 2024-25 Estimated Ending Fund Balance	731,211

American Rescue Plan Act

On Aug. 10, 2021, your Board approved a spending plan for the initial American Rescue Plan Act (ARPA) payment of \$13.16 million, which included funding for an economic impact grant program with priority areas of housing, childcare, and telehealth & broadband, DHHS General Relief Client debt forgiveness, and community requests as determined to be eligible. On Jan. 24, 2023, your Board opted to utilize \$1.5 million of ARPA funds, previously appropriated for broadband, as matching funds for the Behavioral Health Continuum Infrastructure Program (BHCIP) grant application to fund building a Behavioral Health Crisis Triage Center.

The final ARPA payment of an additional \$13.16 million arrived June 16, 2022, and your Board allocated those funds primarily in FY 2022-23 and the remainder in FY 2023-24. The county received a total of \$26.3 million in ARPA funds. \$22 million in ARPA funds have been expended and it is estimated that an additional \$627,000 will be expended prior to the end of FY 2023-24, for a total of \$22.6 million expended of the original \$26.3 million. The remaining \$3.7 million has already been obligated by your Board to the following projects:

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 Administration - Audit Services	\$ 18,560
Human Resources Staffing	\$ 142,779
Total	\$ 3,689,164

Your Board directed staff at the mid-year budget presentation to allocate any remaining ARPA funds to previously allocated ongoing costs. Due to vacancies in the Human Resources Department and reduced need for COVID-19 testing supplies, \$142,779 is available to allocate in FY 2024-25. These funds are proposed in the budget to be carried forward for Human Resources - Risk Management staffing.

Local Assistance and Tribal Consistency Funds

Through the American Rescue Plan Act, the U.S. Department of the Treasury established the Local Assistance and Tribal Consistency Fund (LATCF) distributing funds to eligible revenue sharing counties and Tribal governments for use on any governmental purpose. This program is intended as a general revenue enhancement program intended to augment or stabilize revenues.

The county was awarded \$3,196,536.10 in LATCF funds to be distributed in two separate tranches, one in FFY 2022 and one in FFY 2023. The county received the first tranche in Oct. 2022 and the second tranche in Dec. 2023. On Jan. 10, 2023, your Board allocated \$1 million of these funds to establish an Earthquake Recovery & Assistance Program to assist residents displaced as a result of the Dec. 2022 earthquake and subsequent aftershocks. Of the \$1 million, \$500,000 has been expended, \$118,103 is pending 100% reimbursement from the California Office of Emergency Services for sheltering, and \$250,000 remains obligated. While \$131,897 remains available for future earthquake response needs, if the full reimbursement is received, \$250,000 will be available for this purpose, unless your Board should choose to reallocate.

In addition, \$2,196,536 remains available and unobligated for your Board to allocate in FY 2024-25. Given the ongoing budget deficit, staff recommends holding these funds as unallocated while staff and your Board work to stabilize the General Fund. Staff will seek further direction on the allocation of these funds from your Board through the Budget Hearings.

National Opioid Settlements Funds

In November 2022, the county began receiving the Opioid settlement payments. For California, the DHCS is monitoring expenditures of these funds and has established reporting and spending guidelines. Funds must be used for Opioid abatement activities as defined by DHCS. The county has

received \$3.4 million in payments thus far. Year 4 payments are expected in the next few months. In FY 2023-24, your Board approved a budget utilizing \$1.6 million of these funds. These funds are subject to 15% backstop for state attorneys’ fees, therefore, some of the payments received will be utilized for this purpose if the funds have not already been withheld. Staff have continued to work with the Opioid Workgroup including the Sheriff’s Office, Probation, County Counsel, and the DHHS to consider how to allocate these funds. Based on this group’s recommendations and in accordance with the requirements set forth by DHCS, the FY 2024-25 proposed budget reflects utilizing \$1,925,963 in opioid settlement funds allocated to the following projects, the majority of which are ongoing:

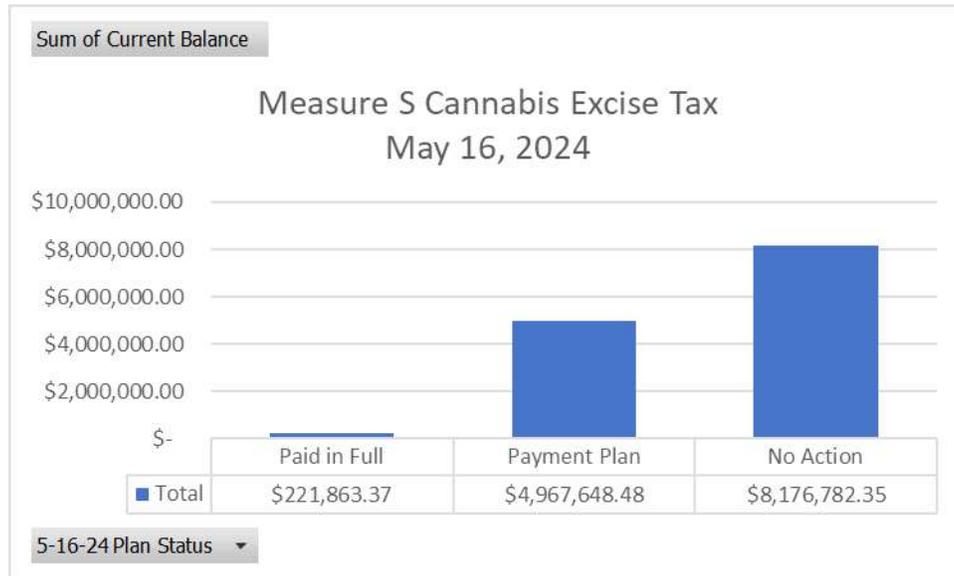
Opioid Settlement FY 2024-25	
DHHS - Behavioral Health	
Drug Medi-Cal Organized Delivery System PUPM Medi-Cal Match	\$ 1,125,000
BH - OSF Administration	\$ 20,600
	\$ 1,145,600
DHHS - Public Health	
Harm Reduction Program: personnel, disposal from syringe kiosks	\$ 175,578
SUD Prevention School Outreach	\$ 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)	\$ 429,785
	\$ 429,785
Probation	
Clean and Sober Housing	\$ 50,000
	\$ 50,000
Total	\$ 1,925,963

Measure S - Cannabis Excise Taxes

On Oct. 3, 2023, your Board reinstated Measure S Cannabis Excise Taxes at 10% for 2024 which will be due in 2025. On Oct. 24, 2023, your Board approved implementation of a payment plan process for overdue taxes. Additionally, your Board required that permit holders must enter a payment plan by Mar. 31, 2024 and be paid in full by Mar. 31, 2025, or their permits will be at risk of suspension or revocation.

As of May 16, 2024, the Treasurer-Tax Collector had 357 payment plans and received \$574,478 in FY 2023-24 to date. Outstanding payment plans total just short of \$5 million, though it is not anticipated that all payment plans will be paid in full by the deadline. Due to the uncertain nature of this revenue stream, staff have not budgeted for it in the coming year. Any receipts of Cannabis Excise Taxes in FY

2024-25 will be available to fund FY 2025-26.



Measure J - Transient Occupancy Tax Increase

On May 7, 2024, staff requested direction from your Board on the allocation of Measure J Transient Occupancy Tax (TOT) funds. As reported in that meeting, it is anticipated that Measure J will bring in more than \$1 million in additional TOT funds in FY 2024-25. The CAO recommended those funds be held in the General Fund for the next two years while working to stabilize the General Fund. Your Board elected to establish an ad hoc committee of Supervisors Arroyo and Bushnell to further review the options of holding Measure J funds versus allocating those funds. The CAO’s recommendation to hold the funds is represented in the proposed budget. This recommendation is limited to the Measure J specific funds.

As a result of Measure J, Humboldt County Visitor’s Bureau (HCVB), Gateway Communities and Redwood Region Entertainment and Education Liaisons (RREEL) would receive an increase in their base TOT allocations as their agreements are based on a percentage. If agreements are renewed in FY 2024-25 at the same rates, allocations will be based on FY 2022-23 which is the first year including a half year of Measure J. These allocations are:

TOT FY 2024-25		
	FY 2023-24	FY 2024-25
HCVB	\$ 315,874	\$ 341,180
Gateway Communities:		
So Hum Visitors Bureau	\$ 65,807	\$ 71,079
Garberville Chamber	\$ 121,085	\$ 130,786
Orick Chamber	\$ 31,587	\$ 34,118
Willow Creek Chamber	\$ 31,587	\$ 34,118
Arcata Chamber	\$ 26,323	\$ 28,432
RREEL	\$ 184,518	\$ 197,698
Total	\$ 776,781	\$ 837,410

Staff will seek further direction on the allocation of the Measure J TOT funds from your Board through the Budget Hearings.

Section 3: Policy Decisions for FY 2024-25

Recommendation 3: Inter-Fund Loans

An inter-fund loan is necessary for the Forest Resources and Recreation Fund as it is anticipated the costs for infrastructure and operations of the McKay Community Forest will exceed available revenues. The resolution (Attachment 1) before your Board today authorizes the General Fund to loan \$346,388 to the Forest Resources and Recreation Fund against the expected payment from future timber harvests.

At the presentation of the proposed budget for FY 2022-23, staff missed bringing forward a resolution for the McKay loan. This was corrected with the presentation of the FY 2023-24 proposed budget and included in that resolution. It has since been discovered that the approved amount for FY 2022-23 of \$225,000 was insufficient for that year. The total expenditures for the loan in FY 2022-23 are \$349,268, which is reflected in the resolution attached today.

Recommendation 4: Transfer from Tax Loss Reserve Fund

A Teeter plan requires counties to have 1% of all property taxes and assessments levied (Revenue and Taxation code 4703(a)) placed in a tax loss reserve fund, or Teeter fund. For Humboldt County this means the county’s tax loss reserve fund should be approximately \$2 million. Any dollar amount over the 1% requirement can be credited to the county General Fund. For FY 2023-24 your Board approved transferring \$2,500,000 to the General Fund from the Tax Loss Reserve fund. The county’s tax loss reserve fund (3010) is estimated to have a balance of \$4.3 million at the end of the current fiscal year, with an additional \$1.7 million in revenue anticipated for FY 2024-25. An estimated \$1 to \$2 million can typically be transferred to the General Fund on an on-going basis depending on economic conditions. Based on the current estimated additional fund balance and financial conditions, it is recommended that \$2,000,000 be transferred to the General Fund for FY 2024-25.

Recommendation 5: Hiring Freeze

To continue to make progress on the structural budget deficit, staff recommend that your Board consider a hiring freeze for FY 2024-25 for departments that receive an ARGFA for personnel costs and in funds that have negative fund balances. This action will work towards personnel expenditure reduction through attrition and reducing the ongoing deficit. Based on the CAO’s recommendations, the departments in the General Fund included in this would be:

- 111 - Auditor-Controller
- 130 - Human Resources Personnel
- 166 - Public Works Land Use
- 168 - Public Works County Surveyor
- 221 - Sheriff Operations
- 246 - Public Defender Conflict Counsel

The funds that have negative fund balances and personnel that would be subject to this include:

- 1160 - Social Services
- 1170 - Behavioral Health
- 1720 - Natural Resources
- 1200 - Roads

Recommendation 6: CalPERS UAL Prepayment

The California Public Employees’ Retirement System (CalPERS), as the pension plan administrator of the County of Humboldt and other California government agencies pension plans, establishes actuarial assumptions for all pension plans under their administration. The actuarial reports for the County of Humboldt for FY 2024-25 are attached (Attachment 7 and 8). These reports determine the Normal cost and the UAL cost that will be paid in the upcoming year.

Per the Pension Funding Policy, revised by the Board on April 20, 2021, in the case that CalPERS provides an incentive or discount for prepayment of the minimum required contribution to remit payment in full at the beginning of the year as opposed to monthly payments. The savings offered in FY 2024-25 by CalPERS for prepayment is a total of \$1,133,862, or 3.2%.

Plan	Monthly Payment		Prepayment	Savings
	Total			
Miscellaneous	\$ 27,768,842.00	\$	26,870,277.00	\$ 898,565.00
Safety	\$ 7,271,511.00	\$	7,036,214.00	\$ 235,297.00
Total	\$ 35,040,353.00	\$	33,906,491.00	\$ 1,133,862.00

It has been the prior process of the County to remit prepayment, as such, the Treasurer-Tax Collector has anticipated this payment and ensured sufficient funds are available in the County Treasury. Based

on an estimated 2.3% interest, it is anticipated, if monthly payments of \$2,920,029 were made rather than prepayment, these funds could earn approximately \$404,843 in the County Treasury during FY 2024-25:

Month	Prepayment	
	Balance Less Monthly Payment	Estimated Interest Earned in Treasury
July	\$ 33,906,491.00	\$ 64,097.20
August	\$ 30,986,462.00	\$ 58,577.15
September	\$ 28,066,433.00	\$ 53,057.09
October	\$ 25,146,404.00	\$ 47,537.04
November	\$ 22,226,375.00	\$ 42,016.98
December	\$ 19,306,346.00	\$ 36,496.93
January	\$ 16,386,317.00	\$ 30,976.87
February	\$ 13,466,288.00	\$ 25,456.82
March	\$ 10,546,259.00	\$ 19,936.76
April	\$ 7,626,230.00	\$ 14,416.71
May	\$ 4,706,201.00	\$ 8,896.65
June	\$ 1,786,172.00	\$ 3,376.60
Total		\$ 404,842.81

Given that CalPERS typically earns a higher yield than the County’s Treasury and considering the savings from the discount to the county is an additional \$626,167 above interest that could be earned on these funds, staff recommend remitting prepayment of the required UAL contribution for FY 2024-25.

Recommendation 7: Voluntary Furlough

Your Board approved the use of voluntary unpaid furloughs in FY 2023-24 as a mechanism to addressing potential financial impacts and budget reductions associated with the current economic downturn and the anticipated shortfall in the General Fund. As the county continues to navigate difficult economic conditions and expected shortfalls, staff recommend that your Board authorize Department Heads to approve voluntary unpaid furloughs for employees under their appointing authority for FY 2024-25, utilizing the attached form and calendar (Attachments 4 and 5).

Recommendation 8: Housing Trust Fund

ARPA funds must be obligated by December 31, 2024. The housing funds your Board has allocated may not be utilized in that timeline. For this reason, staff recommend directing the Auditor-Controller to create a General Fund Trust fund for the purposes of the Housing Trust Fund. Currently, all funds held for this purpose are in Fund 3232 - Emergency Response Fund. The total funds to be moved to the new General Fund Trust are \$2,096,000:

Housing Trust Fund

ARPA	\$ 1,500,000
Measure J - Transient Occupancy Tax FY 2022-23	\$ 132,000
Measure J - Transient Occupancy Tax FY 2023-24	\$ 264,000
DHHS - Social Services	\$ 200,000
Total	\$ 2,096,000

Recommendation 9: General Fund Reserve

Due to the budget deficit, this budget does not include a contribution to the county’s existing General Reserve. A contribution has not been made to the General Reserve since FY 2022-23. The General Reserve policy has set a target funding level of 10% of the county’s total General Fund expenditures, as averaged by the current and prior year adopted budgets with a goal of reaching the Government Finance Officers Association (GFOA) recommended level of 16%. For this budget cycle, this target funding level is \$16.5 million with the GFOA recommendation at \$26.3 million. The current balance of the General Reserve is \$10.6 million which is below the target policy level. The policy also gives the authority to the Board and the CAO to prohibit such a transfer if financial constraints are present. It is critical that the county prioritize fiscal sustainability including building reserves to fiscally prudent levels. For this reason, the CAO recommends revisiting this at the mid-year budget review and considering contribution at that time.

SOURCE OF FUNDING:

All county funds

FINANCIAL IMPACT:

Funding is as shown in the Humboldt County FY 2024-25 Proposed Budget document (Attachment 9). The total proposed county budget is \$606,724,129, proposed General Fund expenditures are \$165,269,298, including a contingency reserve of \$1,467,573.

STAFFING IMPACT:

Staffing is as shown in the Humboldt County FY 2024-25 Proposed Budget document (Attachment 9). The total proposed county staffing allocation is 2,344.73 positions, a decrease of 98.54 positions over the FY 2023-24 adopted positions.

OTHER AGENCY INVOLVEMENT:

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

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion.

ATTACHMENTS:

1. Resolution McKay Loan from General Fund FY 2024-25
2. Additional Requests for General Fund Appropriation FY 2024-25
3. 199 Funding Requests
4. Voluntary Furlough Form FY 2024-25
5. Voluntary Furlough Calendar FY 2024-25
6. Measure Z Final Rankings
7. Miscellaneous Plan Annual Valuation Report as of June 30, 2022
8. Safety Plan Annual Valuation Report as of June 30, 2022

9. Proposed Budget FY 2024-25

PREVIOUS ACTION/REFERRAL:

Meeting of: 10/3/23, 10/24/23, 2/6/24, 5/7/24, 5/7/24

File No.: 23-1341, 23-1374, 24-34, 24-377, 24-387