



# COUNTY OF HUMBOLDT

## Legislation Text

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**File #:** 19-594, **Version:** 1

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**To:** Board of Supervisors

**From:** County Administrative Office

**Agenda Section:** Departmental

**SUBJECT:**

Third-Quarter Budget Review for Fiscal Year 2018-19, Transfer from Contingencies, Updated Outlook for Fiscal Year 2019-20 and Budget Adjustment Procedures (4/5 Vote Required)

**RECOMMENDATION(S):**

That the Board of Supervisors:

1. Receive and file a review of the third-quarter budget results for Fiscal Year (FY) 2018-19 and outlook for the FY 2019-20 budget;
2. Approve a transfer from Contingencies to address operational matters in the amount of \$25,000 (4/5 vote required);
3. Approve carrying forward FY 2018-19 allocations into FY 2019-20 totaling \$1,986,362;
4. Approve the General Fund allocation of \$212,774 for three Measure Z applications recommended for funding by the Citizens' Advisory Committee;
5. Approve a modification to the budget adjustments procedures as detailed on page 5; and
6. Take other action as appropriate.

**SOURCE OF FUNDING:**

All county Funds

**DISCUSSION:**

The County Administrative Office (CAO) provides quarterly budget reviews to your Board in order to provide periodic informational updates and seek guidance from your Board. The CAO has provided your Board with first-quarter and mid-year reviews of the county's budget performance. Before your Board today is the third-quarter budget review for FY 2018-19 and projection for FY 2019-20

This report has been divided into three sections: review of the county financial condition as of April 2, 2019; a brief overview of factors that may impact FY 2019-20; and a policy consideration to update the Budget Adjustments Procedure.

### **Section 1: Review of Third-Quarter for Fiscal Year 2018-19**

This review covers the General Fund as this fund contains the majority of county programs. This fund receives discretionary money derived from local revenue sources, such as property tax, and is available to be spent on local needs. The General Fund began FY 2018-19 with a positive fund balance of \$19.8 million, which included \$2.2 million of Measure Z funding. The FY 2018-19 budget was adopted with a \$6.1 million planned spend-down of this balance. Contained in the first-quarter and mid-year budget reports was the additional allocation of \$19 million in Measure Z and General Fund expenditures. These additional costs were primarily for one-time investments in contributions to capital projects for Americans with Disability Act (ADA) barrier removal, a radio infrastructure upgrade, the Courthouse 5th floor remodel, including replacement and modernization of the Courthouse heating, ventilation and air conditioning (HVAC) units, and funding for a Garberville campus. In addition funding was allocated for the Public Agency Retirement Services (PARS) Post-Employment Benefit Trust Program, and a contribution to General Reserve for FY 2019-20. This increased the use of fund balance in the General Fund to \$15.3 million.

On March 26, 2019, your Board made a policy decision to modify the billing cycle for the Cannabis Excise Tax, the county's largest source of discretionary revenue, aside from property taxes. As a result of that action, the county Cannabis Excise Tax will now be due in January for the prior calendar year, and to be paid in two installments - March 15 and Oct. 15. This policy decision had impacts on cannabis excise tax projections for Fiscal Years 2018-19 and 2019-20. The county will not receive any additional cannabis excise tax revenues until March 2020. This has caused a total reduction of \$16.19 million in revenue between FY 2018-19 and 2019-20. Staff is reducing its revenue estimates for FY 2018-19 by \$6.5 million (to \$11.2 million) and FY 2019-20 by \$9.69 million (to \$8.01 million).

In order to accommodate for this reduction in revenues, many allocations approved by your Board at First Quarter will need to be reversed. These allocations were for contributions to the county's rainy day fund, infrastructure projects needed to improve courthouse services and to address necessary ADA barrier removal. The infrastructure projects will now need to be funded through the 2016 Finance Plan, which will require years of payments with interest.

General Fund net costs through June 30, 2019 depict expenditures exceeding revenues by \$7.9 million instead of \$15.3 million as identified at mid-year. This revised fund balance estimate is due to the following revenue and expenditure estimates provided by departments:

- (\$6.5) million reduction in cannabis excise tax revenue
- \$492,447 in additional property tax and general purpose revenue
- \$1.5 million in additional Code Enforcement fines and penalties
- (\$521,150) reduction Measure Z revenue
- \$2.6 million in unused Contingencies
- \$360,909 reduction expenditures in Probation, primarily due to salary savings
- \$474,787 in expenditure savings for other General Fund departments
- \$356,879 in Measure Z expenditure savings

In addition, the following projects/policy direction will not be funded:

- \$1.7 million for the Courthouse 5th floor remodel and HVAC replacement, modernization

- \$1.8 million for the jail showers to be ADA compliant
- \$1.5 million for the Garberville campus
- \$3.5 million for a Contribution to Reserves in FY 2019-20

Finally, there are times when the county needs to examine operational processes at the request of staff. There is a current request to examine payroll operations. The county will contract with a consultant who can evaluate current processes and make recommendations on areas providing opportunities for improvement. Accordingly, staff recommend a transfer of \$25,000 from Contingencies.

**Fund Balance Table**

<b>1100 - General Fund</b>	
<b>FY 2018-19 Beginning Fund Balance</b>	<b>19,858,252</b>
<b>FY 2018-19 Adopted Revenue</b>	<b>159,522,342</b>
First Quarter Additional Cannabis Excise Tax Revenue	9,850,000
Reduced Cannabis Excise Tax Revenue	(6,526,000)
General Purpose Revenue Over/(Under)	492,447
Measure Z Revenue Over/(Under)	(521,150)
Additional Code Enforcement Fines and Penalties	1,587,025
<b>FY 2018-19 Adopted Expenditures</b>	<b>(165,695,066)</b>
Measure Z Carry Forward to FY 18-19 Approved 10/2	(347,615)
Measure Z Carry Forward to FY 18-19 Approved 11/13	(107,880)
First Quarter Measure Z Budget Adjustments	(522,796)
First Quarter General Fund Budget Adjustments	(18,065,410)
Reverse Courthouse 5th Floor Remodel	1,700,000
Reverse Contribution to ADA for Jail Showers	1,800,000
Reverse Contribution to Garberville Campus	1,500,000
Reverse Contribution to Reserves FY 19-20	3,500,000
Unused Contingencies	2,677,880
General Fund Expenditures (Over)/Under	835,696
Measure Z Expenditures (Over)/Under	356,879
<b>Net Costs</b>	<b>(7,963,648)</b>
<b>Estimated FY 2018-19 Year-End Fund Balance</b>	<b>\$ 11,894,604</b>
Carry Forward	(2,011,362)
<b>Estimated Fund Balance Available to Finance FY 19-20 (w/o</b>	<b>9,883,242</b>
<b>Estimated Measure Z Fund Balance Available to Finance FY 19-20</b>	<b>(164,271)</b>

This will leave the General Fund with an estimated year-end fund balance of \$11.89 million for FY 2018-19. The adopted budget reflected a use of fund balance of \$6.1 million, however, due to the changes noted above staff estimates the county will use \$7.9 million in fund balance to finance FY 2018-19 services.

While it is estimated that the year-end fund balance will be \$11.89 million, staff recommends carrying forward \$2 million from unexpended allocations approved in FY 2018-19 to FY 2019-20. These expenses will not occur in FY 2018-19 as originally anticipated.

On April 16, 2019 your Board approved carrying forward the following Measure Z funds:

- \$89,553 for the Department of Health and Human Services to upgrade the Structured Decision Making (SDM) Intake Assessment Tool software for Adult Protective Services.

In addition, staff recommends carrying forward the following General Fund allocations:

- \$200,000 for Human Resources to complete an employee classification and compensation study;
- \$101,200 to replace failing rollup gates that provide access to the Courthouse basement;
- \$205,460 to remediate site contamination at Fourth and J Street;
- \$50,000 for the Garberville Veteran's building, and other Garberville area county facilities;
- \$25,000 for the Fortuna Veteran's building roof and flooring repairs;
- \$101,200 for the Eureka Veteran's Hall conference equipment;
- \$980,000 to replace the Courthouse transformers;
- \$100,000 to assist the City of Eureka with affordable housing; and
- \$158,949 to replace the flooring and complete ADA improvements to the restrooms in the Agricultural building.

This would leave an estimated \$9.8 million, not including Measure Z, available for financing expenditures in FY 2019-20.

## **Section 2: Budget Outlook for Fiscal Year 2019-20**

As your Board directs county staff to prepare the proposed budget for next fiscal year, consideration will be paid both to the financial position of the county and the potential effects of other factors, such as legislative changes made at the state or federal level, or expenses incurred to remain in compliance with the 2016 ADA consent decree mandates.

### **The County Budget**

On Feb. 26, 2019, your Board set FY 2019-20 departmental allocations from the General Fund to increase by 3 percent based on current year General Fund allocations. With anticipated cost increases estimated to be 6 percent, this allocation requires departments to absorb some of the additional expenses. In addition, your Board directed staff to accept and consider requests for additional General Fund appropriations with a preference given to one-time requests and to those that focus on services described in the Cannabis Excise Tax ballot language. Finally, your Board set an annual departmental contribution to PARS that is equal to 1.5 percent of salaries.

**FY 2019-20 Fund Balance Table**

<b>Estimated available year-end fund balance for FY 2018-19</b>	<b>9,883,242</b>
Estimated Discretionary Revenue for FY 2019-20	70,115,453
Estimated Expenditures for FY 2019-20	(75,552,935)
<b>Estimated year-end fund balance for FY 2019-20</b>	<b>4,445,760</b>

The estimated expenditures for General Fund departments in FY 2019-20 is \$75,552,935 and estimated revenues are \$70,115,453, which would mean expenditures exceed revenues by \$5.4 million. This is an improvement over the \$6.1 million deficit in the FY 2018-19 adopted budget. This budget projection includes policy level allocations for Deferred Maintenance, Reserves, and Project Trellis. However, these policy level allocations contribute to the budget shortfall. These projections, however, do not include additional funding requests. The CAO will recommend that Contingencies be reduced in order to fund additional requests, which will cause Contingencies to be funded at an amount that is less than the policy level establish by your Board. The FY 2019-20 year-end fund balance is estimated to be \$4.4 million. These numbers will likely be adjusted as staff continues to work on the FY 2019-20 Proposed Budget.

**Budget Impacts**

*Commercial Cannabis Cultivation*

Revenues generated from the voter-approved local commercial cannabis cultivation tax are intended to maintain and improve essential services, such as crime investigation, mental health services for children and families, and environmental clean-up. Revenue estimates from the cannabis excise tax in FY 2019-20 are \$8.1 million. While permitting has gained speed, as mentioned earlier your Board made a policy decision on March 26, 2019 that has caused cannabis excise tax payments to be delayed until March 2020. Accordingly, cannabis excise tax revenues for FY 2019-20 are estimated to be less than half of the \$17.7 million reported at mid-year. This reduction in revenue has reduced the county’s ability to address mounting pension liabilities, deferred maintenance on public facilities and roads, ADA and building up the county’s rainy day fund. This reduction in revenue will also inhibit the ability to fund additional funding requests for county departments. A more detailed accounting of cannabis revenues and expenses can be found in Attachment 3.

*Measure Z*

On April 16, 2019, your Board evaluated the recommendations provided by the Measure Z Citizens’ Advisory Committee. The Committee recommended a total of \$3.5 million in funding applications. With only \$3.1 million available to allocate, your Board was tasked with reducing the committee recommendations by \$395,631. The below modifications to the committee recommendations were approved by your Board:

- Reduce the Humboldt County Fire Chief’s allocation by \$100,000.
- Reduce the Public Works allocation for illegal dumping by \$10,000.

- Fund the Community Emergency Response Team's request to purchase emergency response equipment in the amount of \$20,524 through the Sheriff's Operations budget unit.
- Delay evaluating the ability to fund the Eureka City Schools request for a School Resource Officer totaling \$55,300 until mid-year as the Sheriff is not currently able to provide a staff person for that position.

After the above-mentioned adjustments were made, an additional \$209,807 in reductions were still necessary. Your Board directed staff to identify General Fund dollars to make up for the remaining shortfall. This direction will have an impact on the General Fund and runs contrary to a policy statement adopted by the Board in 2014 that Measure Z shall not negatively affect the General Fund. It will also reduce the ability to fund other county department requests in FY 2019-20.

All Measure Z revenues and allocations are budgeted in separate and distinct budget units in order to retain a high level of transparency with this revenue source. Intermingling Measure Z with the General Fund in order to fund the remaining \$209,807 is not consistent with that practice. Therefore, staff recommend that the following funding recommendations be separated from the Measure Z budget process and allocated in FY 2019-20 as detailed below:

- \$26,816 Adult Protective Service (1160-504) to continue the Elder and Vulnerable Adult Services Team (EVA) work in addressing cases of elder and vulnerable adult abuse response. Funding for this request is available through fund balance.
- \$57,208 Department of Aviation (3530-381) to contract for development of design plans for a new airfield electrical system at the California Redwood Coast - Humboldt County Airport. Funding for this request is available through fund balance.
- \$128,750 Department of Health and Human Services (1170-424) to provide Mobile Intervention Services Team (MIST) expansion services. Funding for this request is available through fund balance.

### **Section 3: Policy Considerations**

#### **Budget Adjustment Procedures**

The Budget Adjustment Procedures were developed to provide guidance to departments on how to transfer budget appropriations and revenue estimates between accounts, budget units and funds, and how to increase adopted budgets. The Budget Adjustment Procedures were last updated on March 18, 2014 to address revisions to the State of California County Budget Act and the County Purchasing Policy. Further revisions are needed to expand the approving authority beyond the department head by also including a designee. Such revisions will provide for efficient processing and approval of budget adjustments. Contained in Attachment I is a revised copy, including track changes, with a final clean copy found in Attachment II.

#### **FINANCIAL IMPACT:**

The acceptance of today's report and approval of its recommendations will allow for \$1,986,362 in funding allocated in FY 2018-19 to be carried forward into FY 2019-20. In addition, \$8.5 million previously allocated for ADA and Deferred Maintenance projects, as well as Reserves, will not be

funded.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by providing community-appropriate levels of service and managing resources to ensure sustainability.

OTHER AGENCY INVOLVEMENT:

None

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion

ATTACHMENTS:

Budget Adjustments Procedure - Track Changes

Budget Adjustments Procedure - Clean Copy

Cannabis Revenues and Expenses

Appropriation Transfer

PREVIOUS ACTION/REFERRAL:

Board Order No.: C-8

Meeting of: 6/26/18, 11/13/18, 2/26/19, 3/26/19, 4/16/19

File No.: N/A, 18-1488, 19-269, 19-455, 19-521