



# COUNTY OF HUMBOLDT

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Date	Ver.	Action By	Action	Result
2/26/2019	1	Board of Supervisors	approved as amended	Pass

**To:** Board of Supervisors

**From:** County Administrative Office

**Agenda Section:** Departmental

### SUBJECT:

Mid-Year Budget Review for Fiscal Year (FY) 2018-19, Budget Outlook for FY 2019-20, Recommendation for Budget Adjustments and Transfer from General Fund Contingencies (4/5 Vote Required)

### RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive and file a review of the current FY 2018-19 and projected FY 2019-20 budget years;
2. Direct the County Administrative Office (CAO) to prepare the FY 2019-20 budget based on the following parameters:
  - a. Set departmental allocations from the General Fund to increase by 3 percent based on current year General Fund allocations;
  - b. Accept and consider requests for additional General Fund appropriations with a preference given to one-time requests and those that focus on the Cannabis Excise Tax ballot language;
  - c. Set an annual departmental contribution to Public Agency Retirement Services (PARS) to 1.5 percent of salaries;

3. Approve allocating General Fund savings experienced by the Elections Office in the current fiscal year for the purchase of elections voting equipment in FY 2019-20;
4. Approve a transfer from General Fund Contingencies in the amount of \$860,060 (Attachment I) and authorize CAO staff to make any technical corrections necessary to effectuate the Board's direction (4/5 vote required);
5. Approve the list of budget adjustments (Attachment I) and authorize CAO staff to make any technical corrections necessary to effectuate the Board's direction (4/5 vote required);
6. Allocate 1.0 full-time equivalent (FTE) Construction Project Manager (job class 0206, salary range 479), 2.0 FTE limited duration Code Compliance Officer I/II (job class 0343, salary range 364/387), and deallocate 1.0 FTE CAO Project Manager (job class 0198, salary range 497);
7. Direct staff to return at third quarter only if the budget parameters set forth for FY 2019-20 require substantial changes; and
8. Provide additional direction to staff as appropriate.

**SOURCE OF FUNDING:**

All county funds

**DISCUSSION:**

The CAO undertakes a mid-year financial review each fiscal year. The mid-year review serves the dual purpose of monitoring the county's financial status for the current fiscal year and providing staff, your Board, and the public with a preview of the county's financial status going into the next budget year. This report has been divided into four key sections:

1. A review of the financial condition in various county funds as of Dec. 31, 2018;
2. A brief overview of the factors which may affect that financial condition heading into the next fiscal year;
3. Policy decisions staff recommend that your Board consider in light of the county's current or projected financial condition; and
4. A schedule for preparing the county's budget for the fiscal year beginning July 1, 2019.

**Review of Mid-Year Financial Condition for FY 2018-19**

This review covers only the largest county funds and smaller funds with negative balances. Other funds not mentioned appear to be on track, as of Dec. 31, 2018, to end this fiscal year in a positive cash position as budgeted.

**1100 - General Fund**

**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>
Additional Cannabis Excise Tax Revenue	9,850,000
<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	<b>(522,796)</b>
First Quarter General Fund Budget Adjustments	(18,065,410)
<b>Net Costs</b>	<b>(15,366,425)</b>
<b>Estimated FY 2018-19 Year-End Fund Balance without recommendations</b>	<b>\$ 4,491,827</b>
Recommended Budget Adjustments	(860,060)
Transfer from Contingencies	860,606
Contingency Reserves *If no additional allocations	3,720,912
General Fund Expenditures (Over)/Under	3,275,371
Measure Z Expenditures (Over)/Under	(18,976)
<b>Estimated FY 2018-19 Year-End Fund Balance (Without Measure Z)</b>	<b>4,469,230</b>
<b>Estimated FY 2018-19 Year-End Measure Z Fund Balance</b>	<b>(18,976)</b>

The fund containing the majority of county programs is the General Fund. 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. As stated in the First Quarter Budget Report for FY 2018-19, 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. Revenues are anticipated to increase by \$9.8 million due to additional cannabis revenue and an additional \$19 million has been allocated for additional Measure Z and General Fund expenditures during the First Quarter Budget Report. These budget adjustments have increased the spend-down of the fund balance to \$15.3 million, leaving an estimated year-end General Fund balance of \$4.49 million.

As identified by departmental mid-year reviews, General Fund net costs through June 30, 2019 show expenditures exceeding revenues by \$2.91 million instead of \$6.17 million. This positive news is primarily due to the following:

- \$1 million increase in Code Enforcement fines and penalties revenues
- \$510,206 in reduced expenditure for Sheriff Operations primarily due to salary savings
- \$947,349 in reduced expenditure in Custody Services primarily due to salary savings
- \$817,816 in expenditure savings for all other General Fund departments

Estimating cannabis revenue has been difficult at best. Staff is cautiously optimistic that budgeted revenues of \$17.7 million will be met. Permitting has begun to gain speed; however, historical trends have not yet been

established, making it difficult to provide solid revenue projections. In addition, your Board has directed staff to bring back options to modify cannabis permits and therefore the excise tax paid. This may impact future revenues, staff will continue to monitor closely.

**Additional Budget Variances:**

- The Humboldt County Superior Court has indicated that an excess amount of court reporter costs should be anticipated this fiscal year due to the need for a Criminal Grand Jury proceeding to take place. The magnitude of this impact has not yet been determined. Staff will monitor and evaluate at the end of the year when costs are known. If additional appropriations are needed, staff will return to your Board to complete a transfer from Contingency Reserves.
- In FY 2017-18 staff made your Board aware of a correspondence from the Court Executive Officer (CEO) regarding criminal and juvenile transcript costs. The Judicial Council of California advised the CEO that the county is statutorily responsible for such costs since 2006. The county had previously received two invoices for FY 2015-16 and FY 2016-17 totaling \$169,302. On Jan. 29, 2019, the county received an additional written correspondence from the CEO indicating a payment of \$242,216.88 would be accepted for FY 2014-15 through FY 2016-17 as full reimbursement for court reporter transcripts. It was further noted that if this was agreeable, the court would not pursue transcript reimbursement dating back to FY 2005-06. The county continues to dispute payment for the past transcripts, however has budgeted \$100,000 in FY 2018-19 and will budget in FY 2019-20 for this expense.
- The Elections Office is in need of new voting equipment to replace antiquated equipment, increase efficiency of ballot processing, and to provide voters with remote accessible vote by mail systems. This equipment is anticipated to cost \$1.5 million. At First Quarter, your Board approved the transfer of \$356,075 to Elections for this purpose. This was equal to the General Fund savings experienced by Elections in FY 2017-18. In addition, the state has allocated grant funding in the amount of \$542,000 to purchase equipment, leaving of shortfall of approximately \$600,000. The state has indicated that a dollar-for-dollar match will be provided to complete the equipment upgrade. Staff recommends any General Fund savings experienced by the Elections Office in the current fiscal year to be allocated for this purpose in FY 2019-20.
- In FY 2016-17 the county eliminated the Alternate Counsel's Office. Alternate Counsel was used to represent defendants who could not be defended by the Public Defender or Conflict Counsel because doing so would represent a conflict of interest with other defendants in a particular case. When this office was eliminated, the county's indigent defense costs rose dramatically. Staff from Alternate Counsel (253) were absorbed in the Public Defender budget (219), which also added two investigators that year. In addition, removing Alternate Counsel prevented county staff from representing defendants with second level conflicts described above. As a result, the courts began to more frequently appoint outside attorneys to represent these defendants, further increasing indigent defense costs. In addition, the courts are requesting the county increase the rates paid for court-appointed attorneys as fewer and fewer attorneys are willing to take these cases. The county is currently researching reasonable rate increases, the possibility of re-opening the Alternate Counsel Office and issuing a Request for Qualifications to contract with conflict attorneys. Staff will return to your Board at a later date to present recommendations to address conflict cases.
- Significant areas of population and development in Humboldt County are located outside of any fire jurisdictional boundary, leaving developed areas without dedicated fire service and causing increased

strain on existing fire districts who have been providing “good-will” response to out-of-district areas. A working group consisting of your Board, county staff, local fire service representatives, and the Local Agency Formation Commission (LAFCo) have been working to find solutions to this issue for years. With the support of Measure Z and past allocations for fire planning, districts have been formed and areas annexed. However, there are still many districts with mapped annexation areas, who rely on property tax revenues and have indicated an inability to proceed with annexing without a share of the county’s property tax. The working group has identified a potential solution and will return at a later date to present property tax sharing options to your Board. These property tax sharing agreements could reduce the county’s property tax revenues up to an estimated \$460,000, however in exchange fire districts would be required to pursue annexation and encouraged to establish new and/or updated revenue sources, as well as reorganization or consolidation with other fire districts allowing for long-term sustainability of fire service in Humboldt County.

- Sales tax revenue is declining. Revenues for FY 2018-19 are anticipated to be (\$1.3 million) less than budgeted and this is in line with the Hinderliter, de Llamas & Associates (HdL) comparison of sales tax receipts for the first three quarters of 2017 and 2018 which shows a 20.2 percent decrease in point-of-sale tax revenue for Humboldt County. It is worth mentioning that the decline in sales tax revenue coincides with the first full year of cannabis legalization and a record number of individuals and businesses moving in to the legal market, and paying associated costs and fees. Fortunately, property tax revenues will cover this shortfall in sales tax. Therefore, General Fund discretionary revenues remain on target.

As indicated in the chart on page 3, FY 2018-19 year-end fund balance for the General Fund is estimated to be \$11.4 million, including Measure Z. This does assume that the recommendations contained in today’s report are approved and any remaining unspent Contingency Reserves are returned to fund balance.

### *Measure Z*

As a result of departmental mid-year submittals, information is now available to provide a more detailed overview of Measure Z for the current fiscal year. The FY 2018-19 budget was adopted with a planned spend down of the Measure Z fund balance in the amount of \$1.3 million. Since budget adoption, there have been additional Board approved expenditure adjustments of \$522,795. Your Board approved the carry forward of \$455,495 in funding for the radio infrastructure project (\$107,880), additional drug and alcohol rehabilitation services (\$221,100), the walkability study in Willow Creek (\$2,249), 2-1-1 to work as a Volunteer Organization Active in Disaster (\$11,646), an additional courtroom (\$50,000) and the Arcata Fire Department’s dispatch fees (\$62,620).

**FY 2018-19 Measure Z Balance Table**

<b>FY 2018-19 Beginning Fund Balance</b>	<b>\$2,293,874</b>
FY 2018-19 Adopted Revenue	11,578,000
Estimated Measure Z Revenue Under Budget	(521,150)
FY 2018-19 Adopted Expenditures	(12,893,583)
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)
Measure Z Expenditures Under Budget	502,174
<b>Estimated Fund Balance FY 2018-19</b>	<b>\$ (18,976)</b>
<b>Estimated Fund Balance Available for Allocation</b>	<b>\$ (18,976)</b>

As reported by departments during the mid-year review and review of invoice submittals from outside agencies, it is estimated that Measure Z expenditures will be under budget by approximately \$502,174. These unspent funds are primarily due to Department of Health and Human Services (DHHS) and the Sheriff's Office vacancies. Measure Z revenues are estimated to be (\$521,150) less than anticipated for FY 2018-19. Similar to sales tax, pinpointing the cause of such a decline is difficult however, it does notably correspond to the first full year of cannabis regulation. Overall, expenditures are estimated to exceed revenues by \$18,976. Therefore, staff are not recommending any additional Measure Z allocations at this time.

**Fund Balances in Other Funds****Department of Health & Human Services Funds**

Budgeted revenues and expenditures remain on target through mid-year. As reported through the First Quarter Budget Report, DHHS ended FY 2017-18 with a fund balance of \$9.18 million, an increase of \$6.79 million from the previous fiscal year. After the year-end closing in FY 2016-17, it was discovered that Mental Health (MH) accounts receivables (AR) in the amount of \$7.2 million posted in FY 2017-18 as a prior year adjustment for revenues that were actually receivables for FY 2016-17. These receivables were not included in the year-end closing process, and thus were realized in FY 2017-18 causing an increase in the fund balance for FY 2017-18.

DHHS anticipates that the year-end fund balance will be \$9.25 million, an improvement of \$76,704 over budgeted projections primarily due to \$768,829 in Foster Care revenue as a result of state increased assistance payments. However, the Mental Health fund will increase its negative status by (\$531,799), bringing the negative fund balance to (\$4 million). DHHS is continuing to address increased costs in providing mental health services. The state is working to improve the timeliness of the cost settlement process, and DHHS continues to work on strategies to reduce costs and increase direct service hours to improve the overall financial health of the Mental Health fund. These strategies include working to address the increased cost of physicians and mental health placement. In addition, DHHS has been working with local vendors and builders to increase local housing inventory in order to minimize the level of service a client requires. All options to reduce the negative balance are being evaluated. This includes reductions and/or elimination of programs and other functions that are too costly to maintain, as well as contracting with a Mental Health financial expert to review current business practices, service coding, and evaluating claiming versus expenditures to ensure everything is being done to

reduce the negative fund balance of Mental Health.

### **1120 - Economic Development Fund**

The Economic Development fund (EDF) ended FY 2017-18 with a fund balance of zero. This is a decrease in the negative fund balance of \$343,626 due to grant revenues for FY 2016-17 that were realized in FY 2017-18 and a transfer of \$181,163 from the Economic Development Set-Aside Fund. The Economic Set-Aside trust fund ended FY 2017-18 with a fund balance of \$80,084, no draw is anticipated in FY 2018-19. To secure continued economic development services, your Board approved a General Fund contribution of \$225,000 to Economic Development at First Quarter. Economic Development anticipates a year-end fund balance of \$113,219. This increase is primarily due to saving half of the General Fund contribution for allocation in FY 2019-20.

### **1200 - Roads Fund**

The Roads fund ended last fiscal year with a negative fund balance of (\$193,406), a move in the positive of \$1 million from the previous year. Mid-year projections indicate the year-end fund balance will be \$2,240,951, an improvement of \$2,434,357 over FY 2018-19 adopted budget. This positive news is primarily due to increased Senate Bill 1 (SB1) revenue. On Nov. 6, 2018 voters rejected Proposition 6, the repeal of SB1, leaving this vital revenue source intact and continuing to provide the county with necessary revenues to address deteriorating roadways.

In January 2019, Humboldt County experienced damage from a strong winter storm event that caused a major slip out of Panther Gap Road. On Feb. 5, 2019, Sheriff William Honsal, as Director of the Office of Emergency Services, requested that your Board ratify the issuance of a Resolution Proclaiming the Existence of a Local Emergency. This Resolution allows the county to seek state and federal reimbursement for the storm damage repairs, estimated at \$5 to \$10 million. It is important to note that the General Reserves can be utilized to weather economic recession and emergencies like natural disasters, ensuring the county minimizes disruptions to programs and service delivery. If state and federal funding assistance is denied, then the expenses to repair Panther Gap Road will become the obligation of the county and will likely have a significant impact on the General Fund and/or the Roads fund. However, on February 13, 2019, CalOES notified the county that damages to the exact same location on Panther Gap Road had been included in an emergency declaration that occurred in 2017. Accordingly, the Federal Emergency Management Agency (FEMA) has prepared a project worksheet for this location and state assistance through the California Disaster Assistance Act declaration would cost share this project with FEMA once the project has been obligated by FEMA.

The Roads fund has struggled in recent years 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. Staff will continue to monitor the fund balance closely.

### **3530 - Aviation Enterprise Fund**

The Aviation Enterprise fund ended FY 2017-18 with a negative fund balance of (\$748,555), which represents an increase in the negative fund balance of (\$421,552). The adopted FY 2018-19 budget proposed expenditures exceeding revenues by \$140,276. At First Quarter, your Board approved a General Fund contribution of \$250,000 to help reduce the negative fund balance, bringing the projected year-end negative fund balance to (\$638,831). Significant changes are taking place in Aviation, including the creation of an Airports Department and hiring a Director of Aviation, as well as the addition of direct flights to Los Angeles and Denver. Recently, the Airports Department has received feedback from the U.S. Department of Transportation - Federal Aviation Administration (FAA) detailing requirements for non-Aviation use of Aviation facilities and establishing market

rates for leasing of Aviation property. Noncompliance with these grant assurances places FAA grants at risk and could require repayment of grants already issued. Today's report recommends a transfer from Contingency Reserves in the amount of \$100,000 to assist Aviation with a contract for an Aeronautical Lease Consultant to evaluate the numerous Aviation leases and recommend a sustainable course of action. The county remains committed to maintaining a regional airport that offers commercial air service and will continue to pursue Aviation's long-term sustainability.

### **Internal Service Funds**

The county has 14 Internal Service funds that provide for services to other county departments including Motor Pool; Heavy Equipment; Risk Management; Communication; Purchasing; ADA; and Information Technology. It is anticipated that these funds will end FY 2018-19 with a year-end fund balance of \$19.2 million, a decrease of \$1.9 million from the previous year.

The Medical fund is estimated to end FY 2018-19 with a negative fund balance of (\$135,357), with no change over the prior fiscal year. This fund has been working to improve the negative fund balance through improved estimation of the departmental insurance charges. The medical fund is the only internal service fund with a negative fund balance. Overall, the culmination of the Internal Service Funds remain on target with budgeted revenues and expenditures through FY 2018-19 mid-year.

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

As your Board directs county staff to begin preparing a budget for next fiscal year, consideration will be paid both to the position of county funds as of mid-year (the subject of the prior section of this report) and to the potential impacts of other factors, both internal and external. The primary factors to consider will be the proposed state budget, the economy and the need for long-range planning.

### **The Proposed State Budget**

The Governor released the state's Proposed Budget for FY 2019-20 on Jan. 10. The real budget debate does not begin until late May after the "May Revise" is issued, reflecting state income tax receipts. Typically, a large percentage of the proposals from the January release are carried forward into the May Revise. The state's total budget proposal is \$209 billion, with \$144.2 billion in General Fund spending. The Governor proposes a deposit of \$2.2 billion to be put into the state's Rainy Day Fund, providing for a balance of \$15.3 billion. General Fund revenues have increased \$5.7 billion from last year's projections; however, expenditures exceed revenues by \$1.58 billion. This budget creates a blueprint to address the rising costs of housing, childcare, health care, prescription drugs, preschool and higher education.

The Governor included several robust initiatives that will impact local governments. A large portion of the budget is one-time spending, replicating Governor Brown's approach to spending more in order to save more. Many of these proposals of one-time money will go directly or indirectly to local government programs, additional details can be found in Attachment II.

### **Expenditure Increases for FY 2019-20**

Last year the California Public Employees' Retirement System (CalPERS) Board approved a reduction in the discount rate, or the percentage of expected returns on investments made by CalPERS, to occur gradually over three fiscal years. This action was taken in an overall effort to strengthen the long-term sustainability of the retirement system. The current discount rate (return on investment) is 7.375 percent and will be reduced to 7.25 percent in FY 2019-20 and 7.0 percent in FY 2020-21. This phased-in approach is to ensure predictability and



less volatility on county budgets as it provides ample time to prepare for the eventual drop to 7.0 percent. This reduction comes in consideration of a low-return environment that financial experts anticipate to continue over the next 10 years.

Retirement costs are estimated to increase by 15 percent, or an estimated \$1.9 million, for the General Fund in FY 2019-20. The below increases in retirement costs to the General Fund are anticipated for the coming years:

- \$1.1 million in FY 2020-21
- \$847,000 in FY 2021-22
- \$660,000 in FY 2022-23
- \$486,000, in FY 2023-24 at which it is estimated cost increases will stabilize

Given CalPERS is a pre-funded plan, changes to, or a failure to realize, any of the assumptions that underlie its targets for funding must be made up by adjusting employer contributions in future years. In the past decade, several changes have occurred that have resulted in an unfunded liability of over \$288 million. On Sept. 15, 2015, your Board approved a Public Agency Retirement Services (PARS) Pension Rate Stabilization Program (PRSP) in order to begin addressing the mounting unfunded liability. Contributions to PARS will help to stabilize the contribution rates set by PERS. As the balance in the PARS trust grows and produces investment returns, those funds can be utilized to reduce the contribution rate increases, thereby reducing the effect of the contribution rate increase on the county and potentially preventing service reductions. The FY 2018-19 budget incorporated an annual departmental contribution to PARS equal to 1 percent of salaries totaling \$1.2 million for all county departments. While this is a significant contribution, it does not allow for an aggressive approach to addressing the unfunded liability. In today's report there is a recommendation to increase the contribution rate to 1.5 percent, bringing the total contribution to approximately \$2 million for FY 2019-20.

The county continues to work with the Department of Justice (DOJ) on the Americans with Disabilities Act (ADA) consent decree entered into Sept. 7, 2016. As the ADA consent decree projects progress, the county has established an internal service fund (ISF) to pay for and allocate costs for ADA barrier removal, required modifications and compliance with the ADA. Those costs are estimated to be \$3.6 million for the General Fund in FY 2019-20. The ADA fund has allocated more than \$9.2 million for ADA improvement projects in the current year and the General Fund has contributed more than \$5.8 million to the ADA trust fund and ADA projects. The total county costs associated with the remaining projects identified in the consent decree are estimated at \$5.8 million. All items identified in the consent decree need to be completed on or before September 7, 2019, at which time the county plans to move into a transition plan to bring all county programs, services and activities into to compliance with the ADA, as required by the DOJ. The timeline to implement the transition plan will be negotiated with the DOJ later in the year. Transition planning services are estimated to cost \$125,000, with project costs to remediate the remaining barriers identified in the transition plan estimated to be more than \$25 million.

Also mentioned in the current year budget discussion was the correspondence received from the Court Executive Officer (CEO) regarding criminal and juvenile transcript costs, indicating a payment of \$242,216.88 would be accepted for FY 2014-15 through FY 2016-17 as full reimbursement for court reporter transcripts. The county continues to dispute payment for the past transcripts, however has will budget \$100,000 in FY 2019-20 for the transcript expenses to be incurred for that fiscal year.

As previously mentioned, staff will return to your Board at a later date to propose property tax sharing

agreements with local fire districts, which could reduce the county's property tax revenues up to an estimated \$460,000 annually. In exchange, fire districts would be required to pursue annexation and encouraged to establish new and/or updated revenue sources, as well as reorganization or consolidation with other district areas to promote long-term sustainability. These agreements would impact current and future fiscal years property tax revenues.

As reported by the Fresno Bee, in response to financial exposure from lawsuits for damages from California wildfires, Pacific Gas & Electric (PG&E) has filed bankruptcy. It has been speculated that such a filing could impact property tax dollars received by counties across the state for lands owned by PG&E, one of the largest private landowners in California. While property tax obligations are typically not excused from bankruptcy, it is unknown what the final outcome will be until the matter has been settled in court. According to the Bee, in FY 2017-18 PG&E paid approximately \$6.8 million in property taxes to Humboldt County. If property tax relief is provided to PG&E, it could have significant and long-lasting impacts on General Fund revenues.

Your Board has allocated \$4,006,206 to improve radio infrastructure in Humboldt County. On Dec. 18, 2018, your Board approved a contract for \$5.8 million with Motorola to complete the infrastructure upgrades. In addition, CDX Wireless, Inc, who contracted for the administration of the Radio Replacement Project Request for Proposals (RFP) has agreed to oversee the radio project for a cost of \$167,512. In order to complete the radio infrastructure project, an additional \$2.1 million will need to be allocated in FY 2019-20. Salary savings from the Sheriff's FY 2018-19 budget will likely be utilized to cover the unfunded portion of this project.

Expenditures Increases/(Decreases)		
Expense	\$ Amount	% Change
Salaries	\$3,170,063	7%
PERS	\$1,972,737	15%
PARS	\$260,148	61%
Health Insurance	(\$1,662,074)	20%
All Other Insurance and Benefits	\$223,126	8%
Work Comp/Liability	(\$11,176)	<(1%)
ADA Dept Charges	\$238,220	62%
Info Technology	\$258,502	15%
Communications	\$15,304	8%
Purchasing	(\$9,220)	-0.09
<b>Total</b>	<b>\$4,455,630</b>	<b>6%</b>

As mentioned previously, retirement costs are estimated to increase by \$1.9 million in FY 2019-20, or 15 percent, and the contribution to PARS will increase by \$260,000 for the General Fund. Salaries are estimated to increase by \$3.1 million or 7 percent. Health insurance is anticipated to decrease by (\$1.6 million) or nearly 20 percent. This significant decrease is because the cost for the least expensive plan, PERS Select, decreased while all others increased, causing a large number of employees to move to the less expensive plan. All other benefit costs, including disability and social security, will increase by \$223,000. In total, salaries and benefits are estimated to increase by \$4 million, or 6 percent, in the General Fund.

Currently estimated cost increases in the amount of \$491,630 for the General Fund in FY 2019-20 include workers' compensation, liability insurance, ADA charges to departments and other cost allocation charges. Total known cost increases to the General Fund are \$4.4 million, or 6 percent over FY 2018-19.

It is important to note that in FY 2018-19 additional funding of \$975,291 was allocated for the following ongoing expenses:

- 1.0 FTE Human Resources Project Manager (\$90,300)
- Landscaping (\$50,000)
- 1.0 FTE Land Use Administrative Analyst (\$54,052)
- Southern Humboldt Visitor's Bureau (\$39,134)
- Film Commission (\$20,000)
- Adverse Childhood Experiences (ACEs) (\$400,000)
- 1.0 FTE Economic Development Director (\$148,987)
- Government Accounting Standards Board (GASB) 68 report regarding pensions (\$4,500)
- NeoGov Human Resources Modules (\$112,975)
- 1.0 FTE Aviation Senior Administrative Analyst (\$55,343 - 6 months)

A significant portion of the salary increases can be attributed to the above-mentioned staffing allocations, as well as negotiated salary and benefit increases that were finalized this fiscal year. In addition, CalPERS pension expenses are increasing significantly and ADA expenditures continue to be costly. Due to the rising cost of ongoing expenditures such as salaries and benefits, and cost allocation charges, staff recommend the focus remain on utilizing excess revenues, such as the Cannabis Excise Tax, for one-time expenditures that address the mounting unfunded pension liability, the ADA consent decree and the large backlog of deferred maintenance costs and ageing facilities. Included with today's report is a detailed report of the FY 2018-19 allocations of Cannabis Excise Tax revenues (Attachment III). It is important to note that more than \$1.5 million has been allocated for ongoing expenses such as staffing (\$849,408), Adverse Childhood Experiences (ACEs)(\$400,000), job creation (\$124,969), plus all other allocations (\$127,150). Given the excise tax revenue remains volatile, and is anticipated to peak in the near future, it is important to remain cognizant of the long-term impacts of those allocations, as a future decline could require the need for service reductions.

## **Revenue Changes for the General Fund**

As of Feb. 17, 2019, 321 commercial cannabis cultivation permits have been approved and 947 interim permits have been issued. Staff continue to monitor Cannabis Excise Tax revenues closely as Planning and Building diligently work through processing current commercial cannabis applications. Given the number of approved permits and interim permits issued, budgeted revenues of \$17.7 million in FY 2018-19 appear to be on target. Staff estimates \$17.7 million in revenue to be received in FY 2019-20 as Planning and Building continues to approve applicants who currently hold interim permits. It should be noted that your Board has directed staff to bring back a report on options to modify permits and therefore the excise tax paid. Such changes could have significant impacts on the current year's revenue projections, as well as future years.

In addition, the State of California legislature has introduced a bill (Assembly Bill 286) that would temporarily reduce state excise taxes for legal cannabis businesses, and suspend cultivation taxes altogether through 2022. This proposal is designed to promote the legal market and allow for those who have come into compliance to

better compete with the illegal market. This is positive news for local cultivators as there has been concern expressed over the ability of farmers to comply with the mandated regulations.

Revenue Increases/(Decreases)		
Revenue	\$ Amount	% Change
Property Tax	\$1,292,065	6%
Sales Tax	(\$1,838,300)	25%
Fines and Penalties	\$2,200,000	100
All Other Revenue	\$353,765	1%
<b>Total</b>	<b>\$2,007,530</b>	<b>3%</b>

In FY 2019-20 property tax is anticipated to increase by \$1.2 million and sales tax is estimated to decrease by (\$1.8 million). Revenue from fines and penalties associated with code enforcement actions are being moved from the Code Enforcement budget unit to General Purpose Revenue, causing an increase in discretionary revenues however, this will be offset by an increased General Fund contribution to Code Enforcement. In addition, the transient occupancy tax and all other miscellaneous revenue are estimated to increase by \$353,765. Total known revenues are estimated to increase by \$2 million, not including Measure Z revenue. Measure Z sales tax is estimated to decrease by (\$279,000). The decline does coincide with the first full year of cannabis legalization and a record number of individuals and businesses moving in to the legal market, and paying associated costs and fees. Not only is the Cannabis Excise Tax difficult to predict as the market and regulations mature, the impacts local and state regulations have on other revenue sources is difficult to estimate.

As can be seen by the expenditure and revenue charts on the previous pages, expenditure increases are far outpacing revenue increases. Funding that was previously used for one-time expenditures will now need to be used for ongoing expenditures.

### Section 3: Policy Considerations

#### Set Parameters to Guide FY 2019-20 Budget Preparation

**FY 2019-20 Fund Balance Table**

<b>Estimated available year-end fund balance for FY 2018-19</b>		<b>191,450,704</b>
Estimated Discretionary Revenue for FY 2019-20		78,177,749
Estimated Expenditures for FY 2019-20		(79,224,389)
<b>Estimated year-end fund balance for FY 2019-20</b>		<b><u>10,404,064</u></b>

Similar to the Governor's FY 2019-20 Proposed Budget, while the county has eliminated structural deficits and made great headway in addressing failing infrastructure, mounting CalPERS liabilities and improving the General Reserve, in order to protect those investments the county must continue to save and address threatening liabilities. With the economy of Humboldt County beginning to show signs of a decline and the future of the cannabis market unknown, it is important that the county remain focused on one-time investments and minimize increases to ongoing expenditures. At this time, the CAO recommends setting departmental allocations from the General Fund to increase by 3 percent based on current year General Fund allocations. Staff estimates expenditures will exceed revenues by \$1 million, which equates to an estimated \$78.1 million in

revenues and \$79.2 million in expenditures. However, as staff receive additional information from departments and continue to review revenue, these estimates may change. Expenditure estimates exceed revenues due to significant contributions to the county's long-term obligations such as ADA, PARS and deferred maintenance. The current budget estimates for FY 2019-20 reflect an estimated year-end fund balance of \$10.4 million, including Measure Z.

In addition, the CAO recommends accepting requests for additional General Fund appropriations with a preference given to one-time requests and those that focus on the following as found in the Cannabis Excise Tax ballot language:

- Public Safety
- Job Creation
- Crime Investigation/Prosecution
- Environmental Cleanup/Restoration
- Children/Family Mental Health
- Drug Rehabilitation
- Other County Services

### **Budget Adjustments**

#### **One-Time Expenditures**

The CAO during the Mid-Year Budget Report frequently brings forward budget adjustments on behalf of departments in order to decrease the number of individual items coming to the Board, and provide timesavings to departments. Contained in Attachment IV are the additional funding requests submitted to the CAO. The request for the Park Caretaker and the contribution to the Southern Humboldt tourism marketing and destination development are not recommended at this time. While these requests have merit, they did not meet a priority level that allowed them to be funded based on available financial resources.

The recommended budget adjustments are detailed in Attachment I. Funding for the following budget adjustments is available through funds allocated in Contingency Reserves. Those appropriations include:

- \$51,100 Auditor-Controller (1100-111) - To purchase furniture for the Auditor-Controller staff as the current furniture is dilapidated and not conducive to the current office environment or able to accommodate the current staffing levels. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability of services and investing in county employees.
- \$56,000 Human Resources (1100-130) - For increased travel and training expenses needed to develop employees and to remain up-to-date on changing labor laws, as well as increased consultant expense to conduct employee classification reviews. This supplemental budget supports the Board's Strategic Framework by investing in county employees.
- \$500,000 Human Resources (1100-130) - To conduct a countywide classification and compensation study as approved by your Board at First Quarter. This supplemental budget supports the Board's

Strategic Framework by investing in county employees.

- \$100,000 Contribution-Other (1100-199) - Funding to contract with an Aeronautical Lease Consultant to review the numerous aviation leases in order to ensure future sustainability and compliance with FAA grant assurances. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability of services.

### Ongoing Expenditures

In addition to the one-time expenditures, there are a number of ongoing budget adjustments that are recommended to keep up with evolving departmental needs. Funding for the current year is available through Contingency Reserves, with an additional impact to the General Fund for subsequent years. Those recommended budget adjustments are as follows:

- \$45,232 Board of Supervisors (1100-101) - For negotiated salary and benefit increases, cannabis publications and noticing requirements, and utility expenses that have increased in FY 2018-19. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability of services and investing in county employees.
- \$77,362 Facility Management (1100-162) - Funding for cost sharing of the MetaBim annual licensing fee of \$11,667 for Enterprise Asset Management software and to hire 1.0 FTE Construction Project Manager to coordinate the multiple constructions projects being conducted by Facilities. The majority of the cost associated to the increased FTE will be recuperated in future years through project job costing. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability of services, and providing for and maintaining infrastructure.
- \$30,366 Code Enforcement (1100-269) - Funding for 2.0 FTE limited duration Code Compliance Officers to address the high demands of the code enforcement workload. Ongoing costs for a full year of the additional 2.0 FTE is \$125,790, plus annual salary and benefit increases. Planning would like to transition the extra help positions to limited duration positions. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability of services.

### Appropriation Transfers

In addition to the above transfers from Contingencies, appropriation transfers found in Attachment I are necessary to accurately reflect expenditures. Those adjustments are as follows:

- \$13,100 Human Resources (1100-130) - Funds allocated for the transition of Payroll from the Auditor-Controller to Human Resources. Funds are to purchase additional furniture and to reconfigure the office to allow for the increased staffing in Human Resources and is more appropriately budgeted as a fixed asset. This transfer supports the Board's Strategic Framework by managing resources to ensure sustainability, providing for and maintaining infrastructure.
- \$332,850 Sheriff Measure Z (1100-297) - Funds for the radio infrastructure project were originally allocated in professional services. This project is more appropriately budgeted as a fixed asset. This transfer supports the Board's Strategic Framework by managing resources to ensure sustainability, providing for and maintaining infrastructure.
- \$3,550,000 Communications (3521-151) - To transfer funds allocated for the radio infrastructure project from Information Technology to Communications to more appropriately reflect the work that will be

done through that project. This transfer supports the Board's Strategic Framework by managing resources to ensure sustainability, providing for and maintaining infrastructure.

### **Supplemental Budget Adjustments**

The following budget adjustments are offset by dedicated revenue sources and will increase the overall county revenues by \$1,061,299 and expenditures by \$414,540, however please note that the adjustment for Economic Development and Aviation come from General Fund allocations. Those adjustments are as follows and can be found in Attachment I:

- \$112,500 Economic Development (1120-275) - Funding to provide staff training and team development, new business development and community outreach and education through a partnership with Humboldt State University. Funding for this request is available through a General Fund contribution approved by your Board at First Quarter. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability and engaging in discussions of regional economic future.
- \$195,000 Workforce Investment (1120-287) - Grant funding received to assist those affected by opioid abuse, addiction or overdose, or are unemployed, to fund a Dental and Oral Health Care Liaison at the Humboldt County Office of Education, and for a Regional Training Coordinator. This supplemental budget supports your Board's Strategic Framework by protecting vulnerable populations.
- \$653,799 Roads (1200-888) - Additional SB1 funds have been received and it is necessary to budget these funds in FY 2018-19 to create a balanced budget in the Roads fund. This supplemental budget supports your Board's Strategic Framework by managing resources to ensure sustainability.
- \$7,040 Fish & Game (1700-290) - Grant funding for the HCOE Classroom Aquarium Education Program. Funding for this supplemental budget is available through Fish & Game fund balance. This supplemental budget supports your Board's Strategic Framework by seeking outside funding sources to benefit Humboldt County needs.
- \$100,000 Aviation (3530-381) - Funding to contract with an Aeronautical Lease Consultant to review the numerous aviation leases in order to ensure future sustainability and compliance with FAA grant assurances. Funding for this supplemental budget is available through General Fund Contingency Reserves. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability of services.
- \$85,000 Unemployment (3527-357) - Funding for unemployment claims that are higher than anticipated due to an increase in claims filed against the county. Funding for this supplemental budget is available through fund balance. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability of services.

### **Position Allocation Adjustments**

Similar to budget adjustments, the CAO during the Mid-Year Budget Report will also bring forward position allocations adjustments on behalf of departments in order to decrease the number of individual items coming to the Board. These allocation adjustments will increase the overall position allocations by 2.0 FTE and are as follows:

**Facility Management (1100-162)**

Allocations:

1.0 FTE Construction Project Manager

**Code Enforcement (1100-269)**

Allocations:

2.0 FTE Code Compliance Officer I/II (limited duration)

**ADA Compliance ISF (3552-152)**

Deallocations:

1.0 FTE CAO Project Manager

**Section 4: Budget & Fee Update Calendar**

The proposed calendar for county budget development (Attachment V) provides for final adoption of the budget on June 25, 2019. The intent is to allow for adoption of the budget before the beginning of the next fiscal year.

The calendar for FY 2019-20 includes the Budget Roadshow meetings. To reach all outlying areas of the county, meetings will be held in Northern and Southern Humboldt and the Humboldt Bay Area. These meetings will be held on March 13<sup>th</sup>, 20<sup>th</sup> and 27<sup>th</sup>.

FINANCIAL IMPACT:

The recommended budget adjustments increases the overall budgeted revenues by \$1,061,299 (\$212,500 of which is available through General Fund contributions) and expenditures by \$499,540, with an additional \$860,060 being transferred from Contingency Reserves, having no net impact to the budget for FY 2018-19.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by providing for and maintaining infrastructure , creating opportunities for improved safety and health, encouraging new local enterprise, providing community-appropriate levels of service, investing in county employees, and managing resources to ensure sustainability of services.

OTHER AGENCY INVOLVEMENT:

None

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Recommendation 3

The Board could choose not to approve allocating General Fund savings experienced by the Elections Office in the current fiscal year for the purchase of elections voting equipment in FY 2019-20. This is not recommended as those funds will leverage state funds and are needed to complete the equipment upgrade.

Recommendation 4

The Board could choose not to approve the transfer from Contingency Reserves. This is not recommended as funds have been set aside in order to address department needs that may arise throughout the year.

Recommendation 5

The Board could chose to not to approve some or all of the budget adjustments and require individual



departments to return to the Board with separate supplemental budgets. This is not recommended as these budget adjustments support the Board's Strategic Framework.

Recommendation 6

The Board could chose to not to approve the personnel allocation and require individual departments to return to the Board with separate allocation requests. This is not recommended as this position supports the Board's Strategic Framework.

ATTACHMENTS:

- I. Recommended Budget Adjustments
- II. Proposed State Budget
- III. Cannabis Excise Tax Expenditures
- IV. Additional Funding Requests
- V. Budget & Fee Schedule Development Calendar for 2019-20

PREVIOUS ACTION/REFERRAL:

Board Order No.: C-5

Meeting of: N/A, 18-1488, 18-1612, 19-177

File No.: 9/15/15, 11/13/18, 12/18/18, 2/5/19