COUNTY OF HUMBOLDT

Legislation Details (With Text)

File #:	23-767	**Version:** 1	**Name:**	
Type:	Informational Report		**Status:**	Passed
File created:	5/30/2023		**In control:**	County Administrative Office
On agenda:	6/6/2023		**Final action:**	6/6/2023

Title: Proposed Fiscal Year (FY) 2023-24 Budget

Sponsors:

Indexes:

Code sections:

Attachments: 1. Staff Report, 2. Resolution Authorizing Inter-Fund Loan for the Forest Resources and Recreation Fund, 3. Outstanding FEMA Accounts Recievable 3.17.23.pdf, 4. Furlough Agreement.pdf, 5. Furlough calendar 2023-24.pdf, 6. Measure Z Application List Prioritized FINAL.pdf, 7. Additional General Fund Appropriation Requests Form 23-24 WITH BOS APPROVED, 8. Proposed Budget Link, 9. Resolution No. 23-83.pdf

Date	Ver.	Action By	Action	Result
6/6/2023	1	Board of Supervisors	approved	Pass

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

Vote Requirement: Majority

SUBJECT:
Proposed Fiscal Year (FY) 2023-24 Budget

RECOMMENDATION(S):
That the Board of Supervisors:
1. Receive and review Humboldt County's Proposed FY 2023-24 Budget;
2. Approve the Proposed Budget appropriations for FY 2023-24 subject to modifications and staff direction for adoption of the final budget on June 27, 2023;
3. Adopt a resolution authorizing an Inter-Fund Loan for the Forest Resources and Recreation Fund (1710) (Attachment 1);
4. Approve the transfer of $2,500,000 in FY 2023-24 from the Tax Loss Reserve Fund (3010) to the General Fund;
5. Authorize department heads to continue to approve voluntary unpaid furloughs for employees under their appointment authority for FY 2023-24;
6. Direct the County Administrative Officer to return to your Board at mid-year with considerations of a contribution to the General Reserve;
7. Direct the County Administrative Officer to return to your Board on June 27, 2023, to consider

adoption of the Final Budget for FY 2023-24; and
8. Take other action as appropriate.

SOURCE OF FUNDING:
All county funds

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.

FY 2023-24 Budget Timeline

- On Feb. 7, 2023, as part of the Mid-Year Budget Review, your Board set parameters for the development of the FY 2023-24 budget for General Fund allocations and the budget calendar. The parameters included direction to set departmental allocations from the General Fund to remain at the FY 2022-23 level including the 10% vacancy allowance, to accept Additional Requests for General Fund Appropriation (additional funding requests) in the FY 2023-24 budget limited to those which prevent layoffs, set the annual departmental contribution to Public Agency Retirement Services (PARS) to 2% of salaries, suspend the annual contribution to the Deferred Maintenance Trust Fund (3464) for FY 2023-24, and approved staff recommendations to close the FY 2023-24 projected General Fund deficit. In addition, you allowed departments to recommend furloughs, hiring freezes or staffing reductions in their department in order to minimize impact to essential services and directed staff to reduce trust and reserve funds to the minimum balance required by county policy, ordinance or Government Code.

- Preparation of the proposed budget began on March 2, 2023, when County Administrative Office (CAO) staff presented to departments the parameters for development of the FY 2023-24 budget requests. Departments were asked to submit their requests to the CAO by April 10, 2023. The CAO reviewed the budget and additional funding requests from April through June 2023.

- On May 22, 2023, at the completion of the department presentations, the CAO presented an update to the FY 2023-24 budget outlook and requested direction from your Board on the submitted additional funding requests. The additional funding requests are reflected in the recommended budget as your Board directed. Your Board declared an immediate freeze to hiring staff in the General Fund through the end of FY 2023-24 and placed a moratorium on personnel actions, with allowance for the CAO and Director of Human Resources to authorize exceptions. Additionally, your Board directed the County Administrative Officer to return to your Board with further research on options for reducing the FY 2023-24 budget deficit at the presentation of the FY 2023-24 Proposed Budget or as soon as was practical. Some of the requested options require additional time and will be presented at the FY 2023-24 budget hearings or will return at mid-year.

- Presentation of the CAO Proposed Budget is before your Board today for possible approval and direction to incorporate into the Final Budget.

- Public hearings on the FY 2023-24 Proposed Budget will be held on June 12, 2023.

- The FY 2023-24 Final Budget is scheduled to be adopted on June 27, 2023.

FY 2023-24 Budget

Today, the total proposed budget (or spending plan) before your Board for FY 2023-24 is $578,547,816 (excluding internal service funds). The total proposed budget represents an increase of $7,159,917, or 1.3% more than the budget your Board adopted for FY 2022-23.

The FY 2023-24 budget proposes that your Board allocate $153,467,257 in General Fund Expenditures, which is a decrease of $40,277,033, or 20.8%, from the prior year. General Fund wages and benefits increased by an overall $1.05 million or 1.1%. Wages and benefits make up a higher percent of the General Fund expenditure budget at 63% of total expenditures, as compared to 50% in the prior year adopted budget. The decrease in General Fund expenditures is primarily due to the Public Works Capital Projects budget (170) moving from the General Fund to a separate fund (3562). In Fiscal Year 2022-23, the Capital Projects budget represented $31.9 million in expenditures. Additionally, in FY 2022-23, Measure Z had additional fund balance and higher projected revenues that were expended. This reduction accounts for $6.4 million of the overall General Fund reduction in expenditures, while your Board still has $1.1 million available for allocation. The remaining decrease in General Fund expenditures is the result of utilizing one-time American Rescue Plan Act funds for increases in the jail medical contract for FY 2023-24 resulting in budgeted savings to the General Fund.

In the General Fund, projected revenues for FY 2023-24 are $126,965,771, which is a decrease of $26,228,910 or 17.1% from FY 2022-23. As with expenditures, this decrease is primarily attributed to the move of the Public Works Capital Projects budget out of the General Fund. With this move removed, the General Fund has an overall increase in revenues of $3,315,610 or 2.7% over the prior year. This revenue increase is due to non-discretionary funds including two new grants in Public Works Water Management (1100-251) budget and changes in local accounting practice for transfers. Discretionary General Fund revenue is anticipated to decrease $3,911,505 over the FY 2022-23 budget due to reductions in taxes including Measure S Cannabis Excise taxes and sales taxes. In order to present a balanced budget, the current budget proposes the use of $17,664,969 of fund balance from the General Fund. As previously presented, this budget deficit can be funded with fund balance in FY 2023-24 but will be unsustainable ongoing.

Due to the budget deficit, this budget does not include a contribution to the county's existing General Reserve, a $5 million decrease from FY 2022-23's contribution. 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 $17.4 million. The current balance of the General Reserve is $10.5 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.

<u>Economic Outlook and State Budget</u>

National Economy

In the May 22, 2023 budget report to your Board, staff described the market conditions that point to a widely expected upcoming recession. Beacon Economics is forecasting a period of slow growth/no recession, though admits its margin for error has increased given federal policy uncertainty, specifically the rapid changes in the Federal Reserve's lending policies in response to increased money supply in the economy, low unemployment, inflation, and recent failures of Silicon Valley Bank, Silvergate Bank in San Diego and Signature Bank in New York City.

Congress's stimulus packages during the COVID pandemic (CARE Act, Payroll Protection Act, and other government programs) resulted in borrowing over $6 trillion in 24 months. Instead of selling government bonds to fund this increase (a process that simply was unrealistic given the amount of treasury bills that would have been needed to be sold), the Federal Reserve bought government securities, which essentially injected $5 trillion in new money directly into the nation's economy. To put it in context, the US money supply had been growing at roughly 6% per year over the last two decades, and in 2019 the money supply grew by 40%, with annual growth peaking at 27% in 2021. It is the greatest short run expansion in the money supply ever recorded in the US since the creation of the Federal Reserve over a century ago. This led to huge amounts of deposits into banks, and when the Fed began increasing interest rates, it created a more difficult lending environment for banks. A good portion of these funds were necessarily invested in treasuries. However, in order to shrink the money supply to get a grip on inflation and open lending markets, the Fed sold $660 billion in securities, reducing the value of the securities investments the banks were being forced to make. Those securities are now being sold at a loss because Federal Reserve dictated balances.

US banks are suffering not because of an unhealthy economy, supposed technology industry busts, or high rates of loan delinquencies like those that occurred in the late 1980s and the housing bubble 15 years ago. Banks are struggling because but of the high stakes policy decisions and money shuffling maneuvers being made by the Fed.

Indeed, underlying all of the banking drama appears to be good economic figures; unemployment was at 3.6% in February, consumer spending is increasing, real Gross Domestic Product (GDP) growth in the 1st quarter looks to be coming in between 1% and 2%, and household net worth is 30% ($30 billion) higher than it was pre-pandemic. The way these factors play against current monetary policy fiascoes and banking uncertainty may ultimately determine whether a recession hits, and how hard it is felt.

Data indicates that the Unites States economy is recovering from the dip during the COVID-19 pandemic and that the inflation rate is on its way down. The U.S. Bureau of Labor Statistics reports the annual inflation rate was 5% for the period ending in March 2023, which was down from the peak in 2021, but remains higher than any other year since the housing bubble burst. Consumers continue to feel the impacts of inflation coupled with higher interest rates.

Federal Budget

The Congressional Budget Office (CBO) estimates a federal budget deficit of $1.5 trillion in 2023, though March revenues came in lower than expected, making their estimate far less certain. A case before the Supreme Court regarding student loan debt could affect revenue projections. It should be noted that a proposed rule that would establish a new income-driven payment plan for federal student loans and actions taken by the Federal Deposit Insurance Corporation in response to a pair of aforementioned bank failures this year have increased CBO's projections for the deficit by $130 billion.

CBO estimates the deficits totaling $20 trillion over the 2024-2033 period, increasing debt held by the public from 98% of GDP to 119% in 2023, which would be the highest levels ever recorded for the US. However, the Debt Ceiling bill currently making its way through the Senate would impact FY 2024 spending by freezing it at FY 2023 levels, then allowing for a 1% total increase in FY 2025. The bill, if passed, would rescind some unspent COVID funding appropriated to federal agencies and impose stricter work requirements for those receiving federal SNAP benefits.

State Economy

Despite anticipated decreases in the median home prices, the California Association of Realtors reports that the Housing Affordability Index (the percentage of households that can afford the median-priced home) is expected to drop to 18% in 2023 from 19% in 2022. In addition to increased housing costs, energy and utility costs have increased 13.1% over the last year, food costs have increased 10.6% and Humboldt County continues to have one of the highest fuel costs in the state, almost two dollars more than the national average fuel cost as of April 2023. Willis Towers Watson, a leading provider of compensation, benefit, and employment practice data, reports that healthcare costs will continue to rise with estimated overall increase for employers of 44% over the period of 2020 to 2040.

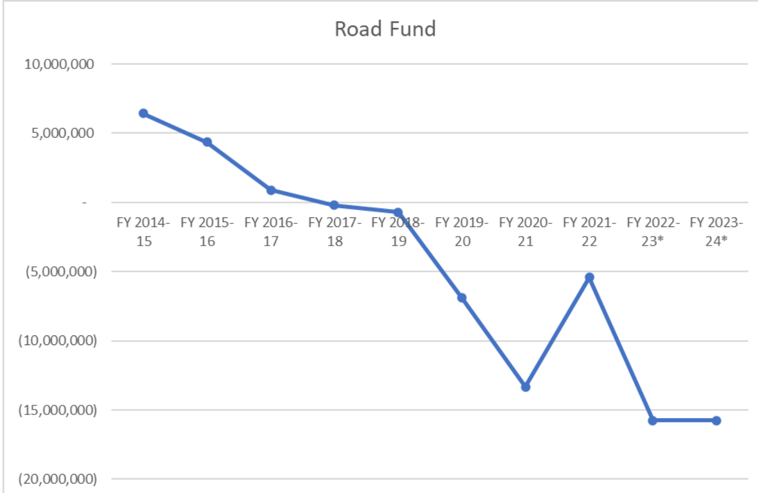
State Budget

As referenced in the May 22 staff report, the state has been outperforming Humboldt County and has not yet been impacted with the steep decreases in sales tax revenue. The Governor's May Revision of the state budget reflects a $31.5 billion budget shortfall, up by $22.5 billion from January, indicated to be the result of anticipated underperformance of personal income tax revenue, anticipated to be down $14.3 billion, and inflationary trends. While the May Revision asserts that California's economy is stable, they recognize the uncertainty and plan to utilize funding delays, expenditure reductions, shifting certain expenditures from the State General Fund to other funding sources, "trigger" reductions, some borrowing from a special fund, and a withdrawal from the safety net reserve to cover the budget shortfall.

<u>Public Works Funds</u>

Roads Fund-1200

The Roads fund is estimated to end FY 2021-22 with a negative fund balance of ($5,414,105), a decrease in the negative balance of $7,923,674 from the previous year. This significant decrease is in large part due to an allocation of American Rescue Act Plan (ARPA) funds in the amount of $6,791,319. This allocation was approved by your Board to reduce the negative fund balance. Year-End estimated actuals for FY 2022-23 indicate a negative year-end fund balance of ($15,765,099), an increase in the negative balance of $10,350,994 over the prior year. The below chart indicates the historical fund balance trends and the steady decline experienced for the past decade.

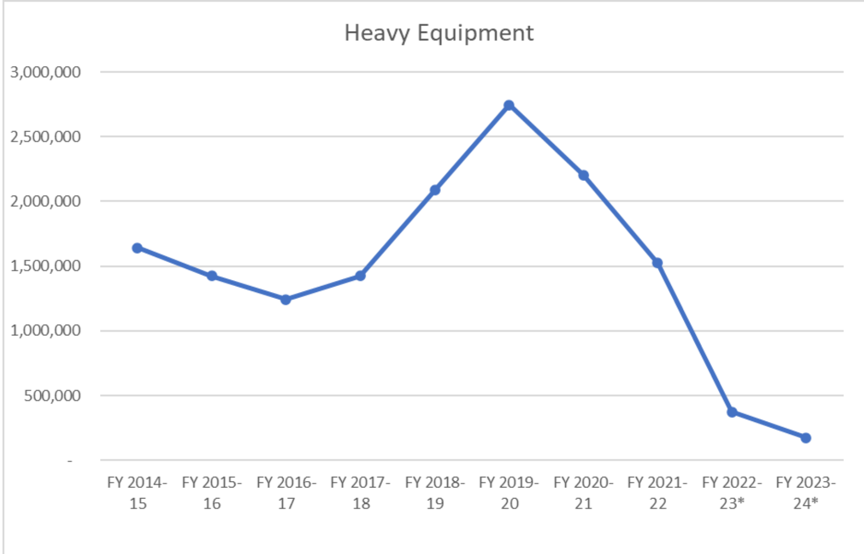


In FY 2023-24, Public Works submitted a budget based on the information available to them that reflected a $7.4 million use of fund balance. Government Code 29009 of the County Budget Act states that funding sources shall equal funding uses. In order to adopt a budget that is compliant with the County Budget Act, the CAO, in consultation with the Auditor-Controller, is recommending a reduction to fixed assets in the Road Fund in the amount of $7,422,667 based on current information.

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. Currently Public Works reflects Federal Emergency Management Agency (FEMA) reimbursements of $11.4 to be outstanding (Attachment 2). Should all of these receivables be realized, they are still insufficient in covering the estimated negative fund balance of $15.7 million. Recognizing an urgent need to address the consistently declining Roads Fund balance, on May 5, 2023, your Board appointed a Roads Ad Hoc to review potential options as future funding sources, including but not limited to, a local revenue measure to be considered for the 2024 ballot. Your Board also approved a budget allocation to conduct public opinion research on the viability of such a measure. That work is currently underway. Staff will return to your Board with additional information and further recommendations upon the completion of the Ad Hoc review and research analysis.

Heavy Equipment-3540

The Heavy Equipment fund is estimated to end FY 2021-22 with a fund balance of $1,524,046, a decrease of $678,8600 from the previous year. Year-End estimated actuals for FY 2022-23 indicate a fund balance of $375,068, a decrease of $1,148,978 over the prior year. In FY 2023-24, Public Works submitted a budget that reflected a $1.9 million use of fund balance based on the available information at the time of submittal. Similar to the Roads Fund, current data shows only $375,068 available in fund balance to finance FY 2023-24, the CAO is recommending an overall budget reduction, primarily in fixed assets, of $1,715,000, which would result in an estimated year-end fund balance in FY 2023-24 of $173,478. The below chart indicates the historical fund balance trends and the steady decline experienced since FY 2019-20.



Due to prior years accounting practice changes, delays in closing multiple fiscal years, and delays in posting pending journal transfers and expenditure claims, staff have been unable to accurately or confidently estimate year-end fund balance projections for a number of years. As the Auditor-Controller has worked diligently to catch up delinquent transactions and prior years financial reporting, staff are better able to estimate year-end fund balances. That said, fiscal year 2021-22 has not yet officially closed so while staff is able to provide these estimates with more confidence than in the recent past, it should be noted that there is still a significant amount of work to be performed to bring the county into current standing. Staff will report back to your Board at Mid-Year with an estimate on all funds that are at risk of expending or exceeding the available fund balance in FY 2023-24.

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 $415,000 to the Forest Resources and Recreation Fund against the expected payment from future timber harvests. In addition, a resolution was not finalized for FY 2022-23. A loan of $225,000 was budgeted and Board approval of the attached resolution will be necessary to effectuate that transfer.

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 $1.9 million. Any dollar amount over the 1% requirement can be credited to the county General Fund. For FY 2022-23 your Board approved transferring $2,000,000 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 $1.5 million in revenue anticipated for FY 2023-24. 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 $2,500,000 be transferred to the General Fund for FY 2023-24.

Recommendation 4: Voluntary Furlough

On Feb. 7, 2023 and May 22, 2023, your Board supported the use of voluntary furlough 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 such, staff recommend that your formally Board authorize department heads to approve voluntary unpaid furloughs for employees under their appointing authority for FY 2023-24, utilizing the attached form and calendar (Attachments 3 and 4).

Measure Z

The FY 2022-23 budget was adopted with an estimated $19.9 million in Measure Z revenue and expenditures, with $5.5 million of that amount coming from carryforward funding and $14.38 million from revenue as a result of taxable sales. Staff estimate that Measure Z will have generated $12.67 million by the end of June 2023, and departments have requested to carryforward $298,000 in unspent funding.

For FY 2023-24, staff are estimating $12.67 in revenues, keeping projections flat compared to estimated actuals in the current year. Total county obligations, including carryforward projects, are proposed at $11,848,245. This leaves $1,120,010 remaining for allocation.

On April 25, 2023, your Board reviewed the FY 2023-24 list of Measure Z applications as prioritized by the Measure Z Citizens' Advisory Committee and did not make recommendations on applications to fund (Attachment 5). There is not enough funding available to fund the committee's top-ranked application, which is for $3.075 million from the Humboldt County Fire Chief's Association, however that application and others may benefit from partial funding. Staff will return to you Board through the Budget Public Hearings on June 12 to seek direction on which applications, if any, to fund.

It should be noted that at the April 25 meeting, your Board created an Ad Hoc to evaluate Measure Z positions that could be deallocated, and to recommend a percentage-based allocation methodology for your Board to consider. The first of these actions was completed, and on May 23, your Board approved deallocating 7 of 16 county positions that were allocated in FY 2022-23. The Proposed Budget retains the other 9 FTE, of which 6 positions remain vacant. These positions equate to a total cost of $899,830. The Ad Hoc will continue its work on a percentage-based allocation methodology.

As noted in the April 25 staff report, the Citizens' Advisory Committee also took action after that meeting, approving several goals and principles it would like to see in Measure Z, including:

- Limiting county allocations to no more than 67% of total funding (revenue from taxable sales and one-time funding) by FY 2026-27.
- Establish a reserve policy equal to 16% of ongoing revenues
- The committee will not recommend funding for any new, ongoing county positions.

If your Board adopts the Measure Z budget as proposed, county obligations will total 91.4% of funding available, though that figure could decrease later in the year if revenues exceed estimates. Additional work and reductions to county departments will need to be made if your Board seeks to achieve the funding levels desired by the Measure Z Committee.

Budget Deficit Reduction
As your Board directed on May 22, staff have begun to research structural budget deficit reductions measures.

Voluntary Separation Incentive Program
Your Board on May 22, 2023, also directed staff to research a possible voluntary separation program (VSIP). In 2011, the Board implemented a VSIP that provided employees incentive payments with a maximum value of $10,000 if the employee's resignation date fell before the beginning of the 2011-12 fiscal year, and declining amounts of payment as each month passed that an employee remained with the county. In order for a position to be eligible for VSIP, the employee's department head must approve. In doing so, the department head would be agreeing to hold the position vacant for a period of 2 years from the date the employee resigned. At the budget public hearings, staff will bring forward a similar structure for a new VSIP, though with an increased maximum value of $20,000 for employees with more than 10 years of services, and a maximum of $15,000 for employees with less than 10 years of service.

Expenditure Evaluation and Restrictions
Staff sent a memo to department budget development staff on May 30, 2023, requesting additional detail from on the following expenditure categories for General Fund budgets and budgets that submitted an Additional Request for General Fund Appropriation:

- Professional Services
- Travel
- Extra Help
- Overtime
- Utilities and device utilization
- Special Department Expense

Departments are working diligently to complete the request and staff anticipate providing this data to your Board at Budget Hearings for consideration.

Deallocating Vacant Positions
In recent years, departments have implemented the process of unfunding allocated positions to present balanced budgets. This has resulted in positions that are continually vacant and unfunded. Deallocating these positions will allow for a more transparent position control process in which departments are not holding allocated positions that have no associated funding. This measure does not bring an immediate cost savings; however, this will ensure that allocated positions are funded. Given this, staff recommended that positions that have not been filled in more than two years be considered for deallocation. Initial reporting indicates a possible 86 positions that may be available to deallocate. Staff will confirm these positions with the impacted departments and return to your Board at Budget Hearings with the positions that are recommended to be deallocated.

Additionally, your Board directed staff to evaluate the following options which will require more time and will be presented at the Mid-Year Budget Review in February 2024:

- Mandatory Furlough

- Reorganization of Departments
- Evaluation of Unmandated Services
- Exploration of optional work settings and/or schedules

American Rescue Plan Act

In March 2021, Congress passed a $1.9 trillion American Rescue Plan Act (ARPA), which provided $350 billion in federal fiscal relief to local governments, with $65.1 billion set aside for counties and another $65.1 billion designated for cities. The County of Humboldt and all of the incorporated cities within Humboldt County have received funding through this act in 2021 and the remaining funding in late Spring of 2022. All counties receive funding directly from the US Treasury, while cities under 50,000 total population receive funding through the state.

The US Treasury has released guidance on uses for the local fiscal relief funding. This funding can be used to:

- Respond to the public health emergency and address its negative economic effects;
- Replace lost public sector revenue; and
- Invest in water, sewer, and broadband infrastructure.

On Aug. 10, 2021, your Board approved a spending plan for the initial ARPA payment of $13.1 million, which included funding for an economic impact grant program with priority areas of housing, childcare, and telehealth & broadband, Department of Health and Human Services (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 $13.165 million arrived June 16, 2022, and your Board allocated those funds in FY 2022-23. The county received a total of $26.2 million in ARPA funds. $15.9 million in ARPA funds have been expended and it is estimated that an additional $3.9 million will be expended prior to the end of FY 2022-23, for a total of $19.8 million expended of the original $26.2 million. Of the remaining $6.4 million, $6,046,803 has already been obligated by your Board to following projects in FY 2023-24:

ARPA FY 2023-24		
Human Resources Staffing	$	306,146
Information Technology Staffing	$	242,334
HVAC for Regional Facility	$	85,000
COVID Test Supplies/Protective Equipment	$	100,000
HVAC for IT	$	300,000
Jail Medical - Wellpath Contract	$	1,770,498
Child Care Programming	$	242,825
Behavioral Health Triage Center	$	1,500,000
Housing Trust Fund	$	1,500,000
Total	**$**	**6,046,803**

Additionally, in FY 2022-23, the Board allocated funds to the Assessor and the Auditor-Controller for staffing costs, due to staffing levels, these departments did not utilize their allocated ARPA funds. Given this, $397,318 is available for your Board to allocate in FY 2023-24. The CAO recommends the Board consider allocating these funds to the prevention of layoffs, reducing the use of fund balance in the General Fund. Staff will seek further direction on the allocation of these funds from your Board through the Budget Hearings.

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 Federal Fiscal Year (FFY) 2022 and one in FFY 2023. The county received the first tranche in October 2022. 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 December 2022 earthquake and subsequent aftershocks. $2,196,536 remains available for your Board to allocate in FY 2023-24. At this time the CAO 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

On Nov. 9, 2021, the Board approved a settlement agreement in the opioid litigation with Johnson & Johnson (J&J), AmerisourceBergen, Cardinal Health and McKesson. Under the terms of the Settlement, the “Big Three” distributors will pay a maximum of $21 billion over 18 years, while J&J will pay a maximum of $5 billion over no more than nine years, with approximately $22.8 billion in settlement proceeds payable to state and local subdivisions. In addition to the monetary proceeds, the agreement also provides for injunctive relief that requires changes to the distributors’ and J&J’s conduct. This reform package includes the creation of a clearinghouse through which the distributors will be required to account not only for their own shipments, but also the shipments of the other distributors, to detect, stop, and report suspicious Opioids orders. In addition, J&J will not market or sell any Opioid products in the next ten years and has agreed to cease lobbying concerning prescription opioids for ten years. J&J also has agreed to make the clinical trial data for its discontinued Opioids available for ten years. J&J also has agreed to make the clinical trial data for its discontinued Opioids available for medical research.

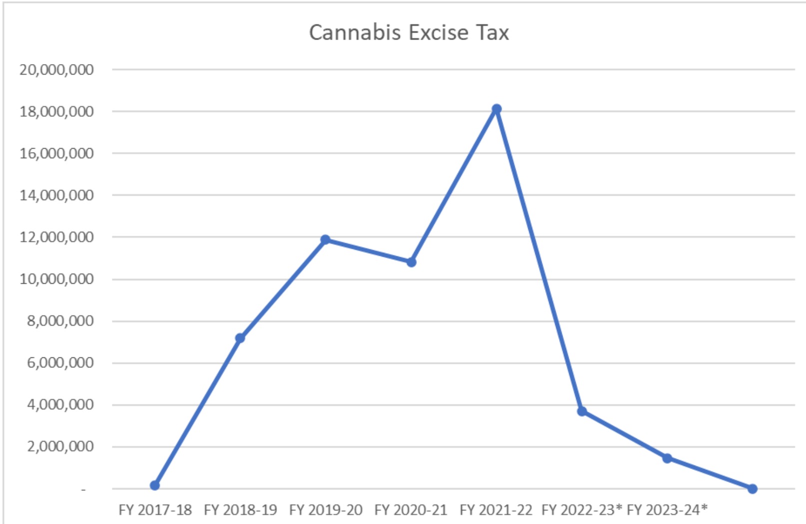
In November 2022, the county began receiving the Opioid settlement payments. For California, the Department of Health Care Services (DHCS) is monitoring expenditures of these funds and has established reporting and spending guidelines. Funds must be used for Opioid abatement activities as defined by DHCS. The county has received $2,331,905 in payments thus far. 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 worked in coordination with the Sheriff's Office, Probation, County Counsel, and the Department of Health and Human Services 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 2023-24 proposed budget reflects utilizing $1,578,089 in opioid settlement funds allocated to the following projects, the majority of which are ongoing:

Opioid Settlement FY 2023-24

DHHS - Behavioral Health		
Grant matching funds for the Crisis Triage Facility	$	500,000
Drug Medi-Cal Organized Delivery System PUPM Medi-Cal Match	$	504,125
Fentanyl Testing strips - for DHHS outpatient	$	3,500
	$	**1,007,625**
DHHS - Public Health		
Harm Reduction Program: personnel, disposal from syringe kiosks	$	170,464
SUD Prevention School outreach	$	75,000
	$	**245,464**
DHHS - Public Health/Behavioral Health & Community Collaboration		
RxSafer Humboldt, local overdose safety coalition	$	25,000
	$	**25,000**
Sheriff		
Jail Medication Assisted Treatment (MAT)	$	300,000
	$	**300,000**
Total	**$**	**1,578,089**

<u>Measure S - Cannabis Excise Taxes</u>

On Nov. 29, 2022, your Board adopted resolution 22-143 to suspend 100% of the Cannabis Excise Authorized Tax for the 2022 and 2023 cultivation cycle, to waive penalties on late payments after Oct. 17, 2022, for excise tax installments for the Cultivation Year 2021 due in Tax Year 2022 and to not assess fees for late payments for the 2nd excise tax installment for the Cultivation Year 2020, originally due in Tax Year 2021. This action had significant impact on the county's discretionary revenue. In FY 2023-24, there is no revenue budgeted for Cannabis Excise Taxes. As of today's date, $14.4 million remains outstanding for tax assessments due prior to your Board's suspension of taxes. Below charts the revenues received since the implementation of legal cannabis cultivation.



The sharp rise, and subsequent decline, of cannabis revenues (including sales tax, permitting fees, and enforcement fines and penalties) has had a significant impact on the county's economy and financial stability. This market has proven to be pivotal to our economy and community sustainability. Accordingly, further evaluation on how to support this critical industry is important to ensuring a vibrant and diverse economy in Humboldt County. On Nov. 1, 2022, your Board directed staff to return with a discussion on a future ballot measure to modify the structure of Measure S. Staff will engage with stakeholders to discuss potential changes and plan to return to your Board later this year to seek direction on alternative approaches to the tax.

Additional Funding Requests

On May 22, 2023, your Board reviewed the submitted Additional Requests for General Fund Appropriation (ARGFA) and provided direction to staff on funding of these requests. The total submitted requests (Attachment 6) included $448,696 in one-time requests and $10,406,327 in ongoing requests for a total of $10,855,023. The CAO recommended $8,690,401 of these requests as they aligned with your Board's direction of preventing staffing reductions. During the May 22 meeting, your Board elected to fund an additional $617,296 beyond the CAO recommendations, for a total of $9,307,697 recommended by your Board. These additional Board approved allocations increased the use of the General Fund. These allocations were also for ongoing expenditures, which will compound the strain on the General Fund in future fiscal years as Fund Balance is one-time funding. Utilizing fund balance to finance ongoing expenditures is a poor practice that is creating significant strain on the General Fund and will require a reduction in ongoing expenditures in the near future should ongoing revenues not be identified. The proposed budget presented for FY 2023-24 reflects your Board's recommendations.

FINANCIAL IMPACT:

Funding is as shown in the Humboldt County FY 2023-24 Proposed Budget document (Attachment 7). The total proposed county budget is $578,547,816, proposed General Fund expenditures are $153,467,257, including a Contingency Reserve of $1,376,785.

STAFFING IMPACT:
Staffing is as shown in the Humboldt County FY 2023-24 Proposed Budget document (Attachment 7). The total proposed county staffing allocation is 2,444.27 positions, a decrease of 61.50 positions over the FY 2022-23 year-end authorized positions.

STRATEGIC FRAMEWORK:
The recommended actions support the following areas of the Board of Supervisors' Strategic Framework.

Core Roles: N/A
New Initiatives: Manage our resources to ensure sustainability of services
Strategic Plan: N/A

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 Authorizing Inter-Fund Loan for the Forest Resources and Recreation Fund
2. Outstanding Roads FEMA Reimbursements
3. Voluntary Furlough Agreement
4. Voluntary Furlough Calendar
5. Measure Z Applications
6. Additional Requests for General Fund Appropriation with Board Recommendations
7. Humboldt County FY 2023-24 Proposed Budget (copy on file with the Clerk of the Board and available online at http://www.humboldtgov.org/247/Budget)

PREVIOUS ACTION/REFERRAL:
Board Order No.: N/A
Meeting of: 5/22/2023, 2/7/2023, 1/24/2023, 1/10/2023, 11/9/2021
File No.: 23-687, 23-9, 22-1706, 23-10, 21-1664