



COUNTY OF HUMBOLDT

Legislation Text

File #: 18-1488, Version: 1

To: Board of Supervisors

From: County Administrative Office

SUBJECT:

First Quarter Fiscal Year 2018-19 Budget (4/5 Vote Required) and Americans with Disabilities Act (ADA) Update

RECOMMENDATION(S):

That the Board of Supervisors receive a review of the Fiscal Year (FY) 2017-18 ending balances, first quarter budget results for FY 2018-19, an initial projection of the county's budget condition for FY 2019-20 and an ADA update; review the Sheriff's request and provide direction on whether to carry forward \$107,880 in Measure Z funds from FY 2017-18 to FY 2018-19 for a radio infrastructure project (4/5 vote required); review the estimated unallocated Measure Z revenues along with the recommendations from the Measure Z Citizens' Advisory Committee (Attachment I) and provide direction on whether to allocate funding (4/5 vote required); approve the list of budget adjustments shown on Attachment II (4/5 vote required), and authorize County Administrative Office (CAO) staff to make any technical corrections necessary to effectuate the Board's direction; approve the allocation of 1.0 full-time equivalent (FTE) Assistant Library Director (job class 0655, salary range 493) in the Library budget unit 1500-621; approve the allocation of 1.0 FTE Senior Administrative Analyst (job class 0605, salary range 477) in the Aviation budget unit 3530-381; approve the deallocation of 1.0 FTE ADA Coordinator (job class 0199, salary range 454) and the allocation of 1.0 FTE Deputy County Administrative Officer (job class 0599, salary range 532) and 1.0 FTE Administrative Analyst I/II (job class 0626, salary range 381/414) in the ADA Compliance budget unit 3552-152; adopt the revised Deferred Maintenance Policy (Attachment III); and provide additional direction to staff as appropriate.

SOURCE OF FUNDING:

All County Funds

DISCUSSION:

The CAO provides quarterly budget reports to keep the Board and the public informed on the status of the county's finances and other factors that may influence that status going forward.

Review of Year-End Fund Balances for FY 2017-18

1100 - General Fund

The fund containing the majority of county programs is known as the General Fund, which is the source of discretionary funding derived from local revenue sources such as property tax, and is available to be spent on local needs.

At the end of FY 2017-18, General Fund revenues received were \$128.5 million, which was 6 percent below budgetary estimates, or \$7.9 million. Actual General Fund expenditures were \$121.3 million, which was 14 percent below budgetary estimates, or \$19.8 million. General Fund revenues exceeded expenses by \$7.2 million in FY 2017-18. The variances between FY 2017-18 adopted and actual budget are largely the result of reduced expenditures with the largest reductions occurring for the following budget units: Sheriff Operations, Humboldt County Correctional Facility, General Relief, unspent Contingency Reserves and Measure Z.

At the time of the FY 2018-19 Proposed Budget report the year-end fund balance was projected to be \$11 million. This included \$1.2 million of unspent Measure Z funding as these funds are subject to additional oversight through the Measure Z Citizens' Advisory Committee. The FY 2017-18 fund balance actuals were \$8.8 million higher, or 7 percent of the total General Fund revenues received in FY 2017-18. The General Fund ended last fiscal year with a fund balance of \$19.8 million, which includes \$2.2 million of unspent Measure Z funding.

This positive financial news is largely the result of the following:

- \$430,817 in discretionary revenue due to unanticipated sales tax, property tax and transient occupancy tax revenue
- \$1.5 million in Contingency Reserves held for unanticipated expenses that went unspent
- \$1 million in Measure Z expenditures savings
- \$372,691 in Measure Z allocations to be carried forward
- \$181,380 in General Fund allocations to be carried forward
- \$702,869 in additional savings due to lower than anticipated General Relief assistance payments
- \$1.73 million in salary and expenditure savings for Sheriff Operations due in large part to unanticipated vacancies
- \$1.35 million in salary and expenditure savings for the Jail due in large part to unanticipated vacancies
- \$277,134 in savings for the Public Defender
- \$418,877 in savings for Probation
- \$803,840 in combined expenditure savings from all other General Fund departments

Health & Human Services Funds

The Department of Health and Human Services (DHHS) administers six budgetary funds. 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, therefore were not attributed to the appropriate fiscal year, and thus were realized in FY 2017-18 causing an increase in the fund balance for FY 2017-18. All of the DHHS funds had combined expenditures of \$163.3 million and revenues of \$162.9 million for FY 2017-18. This resulted in an overall ending departmental fund balance of \$9.18 million, an increase of \$6.79 million from the previous fiscal year. Not including the additional revenue associated to the prior year, the overall DHHS fund balance decreased by (\$435,606).

MH ended FY 2017-18 with a negative fund balance of (\$3.4 million). MH staff continue to work on stabilization of key administrative positions to solidify the ongoing work of the branch to maximize revenue and minimize costs by taking strategic actions to become more operationally efficient. In FY 2018-19, DHHS anticipates further budget and fund balance improvement for MH through holding administrative positions vacant and the continued collaboration between MH Directors, Program Managers, and the Financial Services Division on budget issues and solutions. There has also been a change to twelve-hour shifts and negotiated wage increases for nursing staff that will help attract and retain permanent workers to DHHS and reduce its dependence on workforce contractors.

However, long-term resolutions to eliminate the negative fund balance for DHHS-MH are difficult, due to the delay between when services are paid for and when federal reimbursement is ultimately received. This delay is caused by the claims adjudication process which can take a few months to close and also the cost report/settlement process that can take multiple fiscal years before full reimbursement is realized. As of October 3, 2018, long-term receivables for cost report settlements due from the Department of Health Care Services (DHCS) and Federal Fund Participation Drug MediCal Administrative Claims total an estimated \$16.2 million. These receipts go back as far as FY 2012-13. The reason these receipts are so long outstanding is due to the state's lengthy cost settlement process. These receipts would eliminate the negative fund balance for MH. DHCS has recently taken proactive measures to improve the cost settlement timeline.

The overall DHHS fund balance will continue to be monitored closely. The cost to treat the mentally ill and provide social services such as Child Welfare Services with the Attorney General Settlement, Aid to Adoptions and Foster Care placement are increasing. Other added pressures to the fund balance are the ADA Consent Decree and increases to employee salaries and benefits, including CalPERS expense.

1120 - Economic Development Fund

The Economic Development fund (EDF) ended FY 2017-18 with a fund balance of zero. This is 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. A draw on the Economic Development Set-Aside trust fund of \$66,000 has been budgeted in FY 2018-19, leaving an estimated FY 2018-19 year-end fund balance of \$20,084. To secure continued economic development services, your Board has made recent investments in Economic Development through an increase in the General Fund contributions. Staff recommend an additional General Fund contribution of \$225,000 to Economic Development to continue economic development efforts into the future.

1200 - Roads Fund

The Roads fund ended last fiscal year with a negative fund balance of (\$193,406), a decrease of \$1 million from the previous year. Due to excessive catastrophic road damage caused by winter storms and necessary ADA barrier removal projects, fund balance was utilized in order to address road accessibility. Reimbursements have begun to come in, in addition, Roads is working to meet Unmet Transit needs in order to secure additional funding support. The FY 2018-19 adopted budget included \$460,393 in the use of fund balance. Staff will monitor fund balance closely and make necessary budget adjustments to prevent FY 2018-19 expenditures exceeding available revenues.

1500 - Library Fund

The Library ended FY 2017-18 with a fund balance of \$1 million, an increase of \$735,794 from June 30, 2017. This is better than anticipated as the FY 2017-18 budget reflected expenditures exceeding revenues by \$113,173. The reduction in the use of fund balance is primarily due significant salary savings associated with numerous vacancies over the past year and the amount of time required to fill those positions. In addition, savings were experienced in the cost allocation expenditures that are approved by the State Controller's Office.

3530 - Aviation Enterprise Fund

The Aviation Enterprise fund ended FY 2017-18 with a negative fund balance of (\$748,555), which grew by \$421,552. The adopted budget FY 2018-19 proposed expenditures exceeding revenues by \$140,276. Aviation has been struggling since the loss of Pen Air in August 2017, causing revenues to decline while the cost to maintain the airport has increased. Aviation recently added a direct flight to Los Angeles, which will help bring in additional revenue. Aviation is currently recruiting to bring in additional airlines in order to provide competitive services. The county remains committed to maintaining a regional airport that offers commercial air service and will continue to research solutions to ensure Aviation's long-term sustainability. In order to ensure sustainability, staff recommend a General Fund contribution to Aviation of \$250,000 to help reduce the negative fund balance and allow for the resources needed to continue expanding revenue generating services.

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; Communications; Purchasing; ADA; and Information Technology. These funds ended FY 2017-18 with a combined fund balance of \$21.2 million, an increase of \$1.2 million from the previous year. The increase was due to the following:

- \$640,565 increase to the Motor Pool fund
- \$203,696 increase in the Risk Management fund
- \$17,474 increase to the Employee Benefits fund
- \$233,560 increase in the Medical fund
- \$22,812 increase in the Dental fund
- \$113,621 increase in the Unemployment fund
- \$181,804 increase to the Purchased Insurance fund
- \$854,336 increase to the ADA Fund
- \$16,384 increase to the Purchased Insurance fund

These increases have been offset by the following decreases:

- \$23,375 decrease in the Communications fund
- \$407,431 decrease in the Workers Compensation fund
- \$201,764 decrease in the Liability fund
- \$285,436 decrease to the Roads Heavy Equipment fund
- \$139,903 decrease in the Information Technology fund

The Medical fund had a negative fund balance of (\$368,917) at the end of FY 2016-17. The fund balance at the end of FY 2017-18 is (\$135,356), a move into the positive by \$233,560. This is due to diligent efforts to reduce the negative fund balance and improved estimation of the medical expenditures. The medical fund is the only internal service fund with a negative fund balance.

Review of First Quarter Budget Results

Your Board adopted the county's FY 2018-19 budget on June 26, 2018, the county continues to budget responsibly and the following details the significant deviations anticipated from the projected budget as of October 23, 2018.

County Budget

The Federal Payment in Lieu of Taxes (PILT) funds have been received and was \$448,259 more than anticipated. The county is glad to see that the federal government continues to recognize the importance the PILT program has for rural counties. The inability to collect local taxes on the extensive acreage of federal lands in Humboldt County poses a significant burden. A fully-funded PILT program helps to offset the loss of these revenues and fulfill the government's obligation to local communities with large amounts of federal land. Each year Humboldt and other rural counties across the country have no guarantee that these funds will be allocated the following year, putting these important services at risk. Staff will continue to budget conservatively for this revenue source.

A review of the Hinderliter, deLlamas & Associates (HdL) comparison of sales tax allocations for the past four quarters of 2017 and 2018 as compared to the year prior shows a steady decline in point-of-sale tax revenue growth for Humboldt County, with the first quarter of 2018 showing an 8 percent decrease over the same quarter in 2017. This is a strong indicator of a declining economy and impending recession after the longest period of economic growth in recent history. Staff will continue to monitor and provide a further update in the Mid-Year Budget Report.

Cannabis Excise Tax

The county began accepting applications for cannabis cultivation permits in 2016, with a cutoff on the acceptance of those permits taking place on December 31, 2016 to allow for the completion of an Environmental Impact Report (EIR). At that time, a total of 2,336 permits were received, of which 84 were complete, leaving an additional 2,252 that were going to require an extensive amount of work to acquire the needed information to proceed with processing of the remaining incomplete applications.

On May 8, 2018, your Board certified the completion of the EIR and approved the Commercial Cannabis Land Use Ordinance Amendment (referred to as Cannabis 2.0). This amendment established a countywide cap of 3,500 permits in order to limit the total number of permits and acreage of cultivation that may be approved. Completion of the EIR and establishing the countywide cap allowed Planning & Building to resume acceptance of additional cannabis cultivation permits.

In addition to the established permit process, on November 14, 2017, in response to policy changes at the state level, your Board approved the issuance of interim commercial cannabis cultivation permits. The interim permits would preserve local control and allow permittees the option to seek state licensing. As of the Mid-Year Budget Report presented to your Board on February 6, 2018, a total of 121 permit applications had been approved with 326 interim permits having been issued.

Cannabis Excise Tax

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| November 2018 Installment | | 4,463,143 |
| Additional Interim/Permit Applications | | 8,459,948 |
| *294 applications/1,194 interim permits | Total | 12,923,091 |
| May 2019 Estimated Installment | | 8,693,117 |
| 2017 Delinquency Rate | | (18%) |
| Estimated FY 2018-19 Cannabis Excise Tax Revenue | | 17,725,291 |
| Current Budgeted Revenues | | 7,876,000 |
| Additional Unanticipated Revenue | | \$ 9,849,291 |

In FY 2018-19, \$7.8 million was budgeted for cannabis excise tax revenue, with \$2.6 million received year to date. As of October 31, 2018, approximately 296 permits have been approved, with nearly 1,194 interim permits issued. The November installment for the cannabis excise tax bills have gone out with \$12.9 million in cannabis excise taxes due, this includes additional permit applications and interim permits that have been issued since the first installment that went out in May 2018. An additional \$8.6 million is estimated for the May 2019 installment. Staff anticipate that a significant portion of the tax installments will remain delinquent and unpaid. The delinquency rate for the cannabis excise tax was 18 percent in calendar year 2017.

The State of California will cease accepting temporary applications to cultivate cannabis in January 2019. The Planning & Building Department has increased the rate at which they process applications. In the past few months, Planning & Building has more than doubled the number of approved permits and almost tripled the number of interim permits issued. This has resulted in an increase of \$9.85 million in anticipated cannabis excise tax revenues to be received in FY 2018-19.

A state requirement is for all cultivators to be permitted within one calendar year of submitting an application to cultivate. While the issuance of interim permits has led to a large increase in revenues this fiscal year, regulations around cultivation are stringent and many going through the permit process require more time to meet the applicable state and local requirements. The number of permits may fluctuate as market forces encourage or discourage cannabis production in future years. Staff will continue to monitor the cannabis excise tax revenues closely and provide your Board with updates as the year progresses.

Due to the ever-evolving nature of cannabis regulations, Planning & Building should be commended as they maneuver this newly regulated market, working tirelessly to keep up with the changes and immense demands. Staff urges your Board to remain cautious in the allocation of these funds by maintaining a primary objective of one-time investments that will ensure the long-term fiscal sustainability of the county. An over-reliance on this new revenue source for ongoing costs can have lasting negative impacts. As referenced in the county's General Reserve policy adopted by your Board in February 2018, credit rating agencies factor in changes in state law as it relates to a government's ability to collect revenue. In terms of predictability of major revenues, Standard & Poor's gives its highest rating when state law governing those revenues has not significantly changed in the previous eight years. The credit rating concerns are in addition to the obvious concern that the county cannot over-extend itself in the ongoing obligations until it can demonstrate track record for how the revenue performs

in a variety of economic conditions.

Measure Z

The FY 2018-19 budget includes \$11.57 million in Measure Z revenues, in addition \$2.29 million in unspent funding will be carried forward from FY 2017-18 to FY 2018-19. The FY 2018-19 adopted budget contained Measure Z expenditures of \$12.89 million. As of September 30, 2018, the county has received \$2.9 million for the months of July through September in sales tax receipts as a result of Measure Z. This is \$23,120 higher than this same time last year. While the first part of the year indicates an increase over the prior year revenues, FY 2017-18 experienced a decline in the second half of the year and subsequently revenues were \$46,949 less than budgeted. Revenue estimates for FY 2018-19 contain modest growth over the prior year. Staff anticipate revenues remaining on track with the FY 2018-19 budget, however sales tax revenues are indicating a decline, staff will closely monitor revenues to keep your Board apprised of any potential shortfalls.

Since budget adoption, your Board has approved an extension of time to spend previously allocated FY 2017-18 Measure Z funds of \$347,615 for Alcohol Drug Care Services (ADCS) to continue providing residential detoxification and substance use disorder rehabilitation; Mountain Community and Culture (MCC) to continue a walkability study for the downtown Willow Creek area; 2-1-1 Humboldt (2-1-1) to continue to work as a Volunteer Organization Active in Disaster (VOAD); and the Humboldt County Fire Chief's Association (HCFA) to reimburse the Arcata Fire Protection District for dispatch fees that were not invoiced due to administrative oversight. These carry forward budget adjustments brought the budget for Measure Z expenditures to \$13.24 million.

Finally, on April 24, 2018 your Board approved the carry forward of \$212,158 for a radio infrastructure project. In total \$359,658 had been allocated to the Sheriff in FY 2017-18 for this project. Now that year-end is nearly finalized, only \$39,620 of those funds have been expended, leaving \$107,880 that the Sheriff would like to carry forward to the current fiscal year. This project is expected to span several fiscal years and funds will continue to be carried forward to allow for completion of this project.

If the Sheriff request is approved, there will be unspent Measure Z revenues of \$522,796 available for allocation by your Board.

The Measure Z Citizens' Advisory Committee submitted a list of projects recommended for funding, broken down by primary and secondary recommendations (Attachment I). Your Board approved Measure Z funds based on the Citizens' Advisory Committee's primary recommendations. The committee's secondary recommendations were to split any remaining funds between Public Work's application for Roads and the Sheriff's application for the Radio Infrastructure project.

Staff recommends that your Board review the recommendations from the Measure Z Citizens' Advisory Committee (Attachment I) and provide direction on whether to allocate the remaining available funds totaling \$522,796.

Americans with Disabilities Act (ADA) Update

On September 7, 2016 the county entered into a consent decree with the Department of Justice to bring county-owned and leased facilities into compliance with the ADA consent decree by September 7, 2019. The county is now two years into the three-year consent decree. Below is a summary of the actions the county has taken, as well as the costs associated with these actions, to maintain compliance with the consent decree.

- Received certificates of compliance for 16 county facilities contained in the consent decree.
 - Healthy Moms, 2910 H Street
 - Public Health, 727 Cedar
 - McKinleyville Library
 - Victim Witness Program
 - Humboldt County Fairgrounds, Livestock Toilet Room
 - Humboldt County Animal Shelter
 - Environmental Health - Public Health
 - Ferndale Veterans Building
 - Fortuna Library
 - Social Services Branch, 808 E Street
 - Child Support Services
 - McKinleyville Sheriff's Substation
 - Trinidad Library
 - Willow Creek Library
 - Public Health (Women, Infants and Children - WIC) Office, 1108 Main Street
 - Redwood Regional Economic Development (Economic Development)
- Addressed five facilities through programmatic access, technical infeasibility, or the facility/program has been closed. This means the county is no longer responsible for ADA modifications at the following sites.
 - Luffenholtz Park, 1720 Scenic Drive, Trinidad (no longer county property)
 - Willow Creek Senior Citizens' on Patrol (SCOP) (program no longer exists in Willow Creek)
 - 2956 D Street (property has been sold)
 - Public Health in Willow Creek (technically infeasible to remove remaining barriers)
 - Case Management (program access applied)

The remaining 36 facilities listed in the consent decree are in varying stages of barrier removal and compliance. The total costs for barrier removal to date is approximately \$811,290.

- Retained an Independent Licensed Architect (ILA). Costs for the ILA through August 31, 2018 total \$1,733,075.
- Retained four design firms for project design and management for ADA barrier removal and plan check services. The cost to date for design firms is \$402,916 with a total contract maximum amount of \$1,700,000.
- Project in construction:
 - Fields Landing Boat Launch (\$21,540)
- Projects out to bid with estimated projects costs of \$2.2 million:
 - Correctional Facility Medical Unit (\$319,460)
 - Freshwater Park (\$643,480)
 - Fortuna Veterans Building (\$359,805)
 - Clam Beach (\$948,914)
- Projects currently in design with estimated projects costs of \$2.8 million:

- 5th Floor remodel project to allow the District Attorney's Victim Witness Program and Child Abuse Services Team (CAST) program to relocate to the 5th Floor of the courthouse. In total, \$900,000 from the 2016 Finance Plan was committed to this project. Total estimated cost for the project is \$1,782,043.
 - 720 Wood Street, Eureka (\$300,000)
 - Hope Center, Eureka (\$234,750)
 - Social Services Buildings A, D and G (\$428,250)
 - Coroner (\$103,750)
- Projects in discovery are estimated to exceed \$14 million:
 - Correctional Facility Showers (\$1.8 million)
 - Probation Main (\$137,500)
 - Regional Facility (\$297,000)
 - Courthouse 2nd Floor. This cost is unknown at this time.
 - Garberville Mini Campus design that will house the Garberville Sheriff's Office, Garberville Library and Second District Supervisor's Office and has an estimated cost of \$600,000.
 - One-Stop Permitting Service location that will house Planning & Building, Public Works Land Use Division and Department of Health and Human Services Environmental Health Division. Costs estimated to be \$11.2 million.
- Remediated barriers at six curb ramps in the Eureka and Scotia areas. There are 1,695 curb ramps to address. The first phase of the curb ramp replacement project will replace 263 curb ramps with an estimated project cost of \$3,053,300.
- Adopted three county-wide policies addressing multiple ADA requirements.
 - Service Animal Policy
 - Effective Communication Policy
 - Website Accessibility Policy
- Certified one ADA Coordinator and two Certified Access Specialists. Four more employees are in varying stages of their ADA Coordinator certification.

Since the signing of the consent decree, the ADA Trust Fund (4491) has received approximately \$4.2 million in General Fund contributions for ADA improvement projects. Approximately \$2 million has been used for ADA projects, leaving a fund balance of \$2.2 million. Your Board adopted a budget totaling \$5.9 million for the ADA Compliance budget unit (3552-152). This budget unit is the operating budget unit for ADA expenditures. Contained in today's report is a recommended contribution of an additional \$4,166,053 to complete ADA projects and barrier removal.

The next steps in the consent decree process are:

- Issue a Request for Proposals (RFP) for consultation services for the development of the county's Transition Plan to bring all county facilities into full compliance with the ADA and its self-assessment. The self-assessment is the review, revision and development as needed of county policies. The Transition Plan will tie into the Facilities Master Plan currently in development with the county's consultant.
- Continue to work with Metabim to develop an enterprise asset management software system. The enterprise asset management software system will assist the county in its management of facility improvements and long-range planning to properly manage real property and fixed assets and better manage public projects.

In addition, your Board has allocated five positions to address the county's ADA compliance efforts. Two CAO Project Managers, two ADA Carpenters and an ADA Coordinator. There are two staffing recommendations contained in today's report to better address ADA compliance efforts: deallocate the ADA Coordinator and allocate an Administrative Analyst I/II to prepare agenda items, contracts and other materials relative to compliance efforts; and allocate a Deputy County Administrative Officer to provide oversight to the ADA Compliance Team, including other ADA Coordinators throughout the county. It is anticipated that an additional position will be deallocated at a future date. Should your Board choose to accept the two staffing recommendations this will create a cost savings of \$12,896.

Recommendations

One-time Expenditures

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| 1100 - Measure Z | |
| FY 2018-19 Beginning Fund Balance | 2,293,874 |
| FY 2018-19 Adopted Revenue | 11,578,000 |
| FY 2018-19 Adopted Expenditures | (12,893,583) |
| Measure Z Carry Forward to FY 18-19 Approved 10/2 | (347,615) |
| Recommended Measure Z Carry Forward | (107,880) |
| Estimated FY 2018-19 Year-End Measure Z Fund Balance \$ | 522,796 |

Based on actual discretionary revenue received in FY 2017-18, budgeted totals for FY 2018-19 appear to be on target. The FY 2018-19 budget was adopted using fund balance of \$6.1 million, all of which was for one-time expenditures.

Based on an ending General Fund balance of \$19.8 million in FY 2017-18 and the additional cannabis excise tax revenue to be received in FY 2018-19, the County Administrative Officer (CAO) believes there are funds available for allocation and investments at first quarter.

As noted in the 2018-19 Governor's Budget Summary, the focus continues to be on fiscal restraint, while remaining vigilant and realistic about the looming economic downturn. The Governor emphasizes the need to fill the Rainy Day Fund in order to avoid drastic cutbacks, the need to restore fiscal health to its retirement benefits plan, and making major infrastructure improvements. The county is taking a very similar approach to the FY 2018-19 budget that has been described as responsible, accentuating the need to invest in ADA, Capital Projects, Contingencies and Reserves. Due to a higher-than-estimated General Fund balance, the CAO recommends using \$8.2 million of the General Fund's balance and \$9.8 million of additional cannabis excise tax revenue for the following expenses:

- \$15,000 County Administrative Office (1100-103) - Funding to split one office space located in the County Administrative Office to allow for meeting space or an additional office. Funding for this project is available through fund balance. This supplemental budget supports the Board's Strategic Framework by providing for and maintaining infrastructure.

- \$61,750 County Administrative Office (1100-103) - Funding to contract for OneSolution consulting services, staff training and development, and sales tax forecasting services. Funding for these services are available through fund balance. This supplemental budget supports the Board's Strategic Framework by investing in county employees and managing resources to ensure sustainability and transparency.
- \$25,000 Human Resources (1100-130) - Funding for the moving expenses associated with the transfer of Payroll from the Auditor-Controller's Office to Human Resources. Funding is available through fund balance. This supplemental budget supports the Board's Strategic Framework by investing in county employees and providing user friendly services.
- \$2,523 Human Resources (1100-130) - Funding for the Aviation Director's moving expenses. Funding is available through fund balance. This supplemental budget supports the Board's Strategic Framework by investing in county employees.
- \$294,960 Facility Management (1100-162) - Funding to address regulatory requirements to mitigate site contamination from a former service station operated at the site of Fourth and J Street in Eureka. Funding for this project is available through fund balance. This supplemental budget supports the Board's Strategic Framework by enforcing laws and regulations to protect residents.
- \$101,200 Facility Management (1100-162) - Funding to replace failing rollup gates providing access to the Courthouse basement. Funding for this project is available through additional cannabis excise tax revenue. This supplemental budget supports the Board's Strategic Framework by providing for and maintaining infrastructure.
- \$115,000 Capital Projects (1100-170) - Funding to upgrade the Eureka Veterans Hall with conference and telecommunications equipment, including design and installation. Funding for this project is available through fund balance. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability and providing for and maintaining infrastructure.
- \$1,700,000 Capital Projects (1100-170) - Funding to complete the remodel of the 5th floor of the Courthouse to allow the District Attorney's Victim Witness and the Child Abuse Services Team (CAST) to move to an ADA compliant space. Funding for this project is available through unanticipated cannabis excise tax revenue. This supplemental budget supports the Board's Strategic Framework providing for and maintaining infrastructure.
- \$2,800,000 Contributions to Other (1100-199) - A contribution to Information Technology for a radio system upgrade to address public safety concerns and communication deficiencies in rural Humboldt. Funding for this project is available through fund balance due to the diligent saving in the Sheriff's Operations (1100-221) and Jail (1100-243) budget units to allow for this important infrastructure project. This supplemental budget supports the Board's Strategic Framework by enforcing laws and regulations to protect residents, and providing for and maintaining infrastructure.
- \$225,000 Contributions to Other (1100-199) - A contribution to the Economic Development fund (1120) to provide funding for administrative costs that exceed the allowable 10 percent for grant administration. Funding is available through fund balance. This supplemental budget supports the Board's Strategic Framework by encouraging new local enterprise, and the support of business, workforce development and the creation of private-sector jobs.
- \$59,231 Contributions to Other (1100-199) - A one-time contribution to the Library to allow for the allocation of 1.0 full-time equivalent (FTE) Assistant Library Director. The position will improve operations by providing for administrative oversight for major functions of the county Library System. Funding for this position is available through fund balance. This supplemental budget supports the Board's Strategic Framework by providing community-appropriate levels of service.
- \$250,000 Contributions to Other (1100-199) - A contribution to the Aviation Department to help reduce the negative fund balance and ensure the ongoing success of the Aviation. Funding for this contribution

is available through fund balance. This supplemental budget supports the Board's Strategic Framework by ensuring sustainability of services.

- \$38,200 Contributions to Other (1100-199) - A contribution to ADA to repair the elevator at the Arcata-Eureka Airport. Funding for this project is available through fund balance. This supplemental budget supports the Board's Strategic Framework by creating opportunities for improved safety and health, providing for and maintaining infrastructure, as well as enforcing laws and regulations.
- \$125,000 Contributions to Other (1100-199) - A contribution to ADA to prepare the Transition Plan and self-evaluation in order to continue ADA barrier removal and to evaluate policies and procedures. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by creating opportunities for improved safety and health, providing for and maintaining infrastructure, as well as enforcing laws and regulations.
- \$1,200,000 Contributions to Other (1100-199) - A contribution to the ADA trust fund (4491) to complete ADA projects. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by creating opportunities for improved safety and health, providing for and maintaining infrastructure, as well as enforcing laws and regulations.
- \$600,000 Contributions to Other (1100-199) - A contribution to ADA to create a mini-complex in Garberville to house the Library, Sheriff's outstation and the Second District Supervisor's Office. Funding for this project is available through unanticipated cannabis excise tax revenue. This supplemental budget supports the Board's Strategic Framework by creating opportunities for improved safety and health, providing for and maintaining infrastructure, as well as enforcing laws and regulations.
- \$400,000 Contributions to Other (1100-199) - A contribution to ADA for the Rio Dell Library. Funding for this project is available through unanticipated cannabis excise tax revenue. This supplemental budget supports the Board's Strategic Framework by creating opportunities for improved safety and health, providing for and maintaining infrastructure, as well as enforcing laws and regulations.
- \$1,800,000 Contributions to Other (1100-199) - A contribution to ADA to replace the showers in the Humboldt County Correctional Facility to address ADA barriers. Funding for this project is available through unanticipated cannabis excise tax revenue. This supplemental budget supports the Board's Strategic Framework by creating opportunities for improved safety and health, providing for and maintaining infrastructure, as well as enforcing laws and regulations.
- \$2,853 Contributions to Other (1100-199) - A contribution to ADA to replace the benches in front of the Courthouse to offer ADA accessible seating areas. Funding for this project is available through fund balance. This supplemental budget supports the Board's Strategic Framework by creating opportunities for improved safety and health, providing for and maintaining infrastructure, as well as enforcing laws and regulations.
- \$1,200,000 Contributions to Other (1100-199) - A contribution to the Public Agency Retirement Services (PARS) Post-Employment Benefits Trust Program to address the county's unfunded pension liability. Funding for this contribution is available through fund balance. This supplemental budget supports the Board's Strategic Framework by safeguarding the public trust through managing resources to ensure sustainability of services.
- \$5,000 Contributions to Other (1100-199) - A contribution to Natural Resources to protect the yellow-legged frog, which is a California Species of Special Concern. Funding for this contribution is available through fund balance. This supplemental budget supports the Board's Strategic Framework by protecting vulnerable populations.
- \$1,500,000 Contributions to Other (1100-199) - A contribution to the Capital Project fund (3562) to identify a permanent location to house the Garberville campus. Funding for this project is available

through unanticipated cannabis excise tax revenue. This supplemental budget supports the Board's Strategic Framework by providing for and maintaining infrastructure.

- \$356,075 Contributions to Other (1100-199) - A contribution to Elections to purchase upgraded elections equipment to replace failing polling machines. Funding for this contribution is available through fund balance and is equal to savings experienced in both the Elections (1100-140) and Recorder (1100-271) budget units in fiscal year 2017-18. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability of services.
- \$500,000 Contingency Reserve (1100-990) - Transfer to Contingencies for Human Resources to contract with a qualified firm to complete a countywide employee classification and compensation study. Funding for this contribution is available through fund balance. This supplemental budget supports the Board's Strategic Framework by investing in county employees.
- \$998,800 Contingency Reserve (1100-990) - Transfer to Contingencies in order to address any unanticipated expenses such as capital projects. Funding for this contribution is available through unanticipated cannabis excise tax revenue and fund balance. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability.
- \$3,500,000 Contingency Reserve (1100-990) - Transfer to Contingencies in order to appropriate these funds to the General Reserve in FY 2019-20. This will begin to bring the county more in-line with the Board adopted General Reserve policy of 10 percent of General Fund revenues. Funding for this contribution is available through fund balance and unanticipated cannabis excise tax revenues. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability and the priority placed on rebuilding Reserves.

On-going Expenditures

In addition to the one-time expenditures, there are a number of on-going budget adjustments that are recommended to keep up with evolving departmental needs. Those recommended adjustments are as follows:

- \$4,500 Auditor-Controller (1100-111) - Ongoing funding for a required Governmental Accounting Standards Board (GASB) 68 report regarding pensions. This report is prepared by CalPERS and is charged to the county. Funding for this report is available through fund balance. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability of services.
- \$129,975 Contributions to Other (1100-199) - A contribution to Information Technology (IT) to purchase three human resources modules (Onboard, Perform and Learn) in NEOGOV to allow for enhanced services provided to employees and managers, elimination of redundant tasks, electronic file storage, streamlining workflows and best practice operations. On-going costs will be \$112,975. Funding for this project is available through fund balance. This supplemental budget supports the Board's Strategic Framework by investing in county employees.
- \$55,343 Contributions to Other (1100-199) - A contribution to the Aviation Department to allocate 1.0 FTE Senior Administrative Analyst to perform complex budgetary and fiscal functions that are necessary to ensure the success of the newly formed Aviation Department. The annual cost for this position is \$113,076, including salaries and benefits. It is anticipated that in the future this contribution will not be needed as the Aviation Department becomes self-sustaining. Funding for this position is available through fund balance. This supplemental budget supports the Board's Strategic Framework by providing community-appropriate levels of service.

Finally, the CAO during the First Quarter 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

time savings to departments. Most of the changes are related to increased expenditures which are offset by dedicated funding sources, special revenues or grant funding that are not available for other activities. The recommended budget adjustments requested are detailed in Attachment II. These include:

- \$47,500 Economic Development (1120-275) - The California Employment Development Department has approved grant funding of \$47,500 for the Prison to Employment Initiative. This funding will be used to develop partnerships and strategies to serve the formerly incarcerated and other justice-involved individuals in Humboldt County. This supplemental budget supports the Board's Strategic Framework by protecting vulnerable populations.
- \$203,392 PH Preparedness & Response (1175-455) - The California Department of Public Health, Emergency Programs Office authorized the use of rollover funds for Local Health Departments as well additional funding granted for fiscal year 2018-19 to be used for training, improved communications, the installation of a bio safe cabinet and salary cost increases. In addition, unanticipated infrastructure costs will occur due to the replacement of the roof of the modular laboratory, which has developed a substantial leak. This supplemental budget supports the Board's Strategic Framework by providing community-appropriate levels of service, investing in county employees, and providing for and maintaining infrastructure.

In addition to the above supplemental budget adjustments, an appropriation transfer is necessary to more accurately reflect expenditures; this can also be found in Attachment II.

- \$39,796 Information Technology (3550-118) - Funds were allocated in fixed assets for the purchase of cubicals needed to reorganize the IT office. This purchase is more appropriately budgeted as office expense - equipment. This transfer supports the Board's Strategic Framework by investing in county employees.
- \$56,897 Information Technology (3550-118) - Funds were allocated in fixed assets for the purchase of Sherpa Budget Software. This purchase is more appropriately budgeted as software. This transfer supports the Board's Strategic Framework by providing for and maintaining infrastructure.

Approve Position Allocation Modifications

Similar to budget adjustments, the CAO during the First Quarter 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. Those allocation adjustments will increase the overall position allocations by 3.0 FTE and are as follows:

Library (1500-621)

Allocations:

1.0 FTE Assistant Library Director (job class 0655, salary range 493)

This position allocation will provide for administrative oversight for major functions of the county Library System. One-time funding for this position is available through a General Fund contribution. This position allocation supports the Board's Strategic Framework by providing community-appropriate levels of service.

Aviation (3530-381)

Allocations:

1.0 FTE Senior Administrative Analyst (job class 0605, salary range 477)

This position allocation will perform complex budgetary and fiscal functions that are necessary to ensure the success of the newly formed Aviation Department. Funding for this position is available through a temporary on-going General Fund contribution. This position allocation supports the Board's Strategic Framework by providing community-appropriate levels of service.

ADA Compliance ISF (3552-152)

Deallocation:

1.0 FTE ADA Coordinator (job class 0199, salary range 454)

Allocations:

1.0 FTE Deputy County Administrative Officer (job class 0599, salary range 532)

1.0 FTE Administrative Analyst I/II (job class 0626, salary range 381/414)

These position allocations and deallocation will provide fiscal and administrative support, as well as a clear reporting structure to the evolving functions of ADA Compliance. Furthermore, as staff have acquired Department of Justice approved ADA Coordinator certifications, the requirement to have an ADA Coordinator position has been eliminated. It is anticipated that staff will return at a later date to deallocate an additional CAO Project Manager. These position changes will result in an overall decrease in salary and benefit expense and will be budgeted accordingly in FY 2019-20. This position allocation supports your Board's Strategic Framework by creating opportunities for improved safety and health, as well as enforcing laws and regulations.

Policy Considerations

Deferred Maintenance Policy

The county's Deferred Maintenance Policy has not been updated since 2008, and a new policy is attached for your Board's consideration (Attachment III). The previous policy stated that the Deferred Maintenance fund shall receive an annual contribution of 5 percent of the total deferred maintenance costs. In FY 2018-19 that would have been approximately \$1.4 million. The Deferred Maintenance fund balance is currently \$2 million, with deferred maintenance expense estimated at \$28.7 million as noted in the Facilities Master Plan brought before the Board on July 8, 2008. Historically policy levels have not been reached. The county should maintain a healthy level of funding in its Deferred Maintenance fund to address failing infrastructure or for unpredicted expenditures. A new policy is attached for your Board's consideration. The new policy ties contributions to unrestricted revenues and aims for a contribution that is no less than 2 percent of total deferred maintenance costs or \$574,000.

FY 2018-19 Year-End Fund Balance

| | |
|---|----------------------|
| 1100 - General Fund | |
| FY 2018-19 Beginning Fund Balance | 19,858,252 |
| FY 2018-19 Adopted Revenue | 159,522,342 |
| Additional Cannabis Excise Tax Revenue | 9,850,000 |
| FY 2018-19 Adopted Expenditures | (165,695,066) |
| Measure Z Carry Forward to FY 18-19 Approved 10/2 | (347,615) |
| Net | 3,329,661 |
| Estimated FY 2018-19 Year-End Fund Balance without recommendations | \$ 23,187,913 |
| General Fund Carry Forward to FY 18-19 still to be approved | (181,380) |
| Measure Z Carry Forward to FY 18-19 still to be approved | (107,880) |
| Recommended Budget Adjustments | (18,065,410) |
| Estimated FY 2018-19 Year-End Fund Balance (Without Measu | 4,310,447 |
| Estimated FY 2018-19 Year-End Measure Z Fund Balance | 522,796 |

As discussed above, staff recommends allocations of \$18 million for one-time and on-going expenditures and asks your Board to review and possibly allocate the unspent Measure Z funding. If all of the recommendations in this report are approved, the FY 2018-19 year-end fund balance is estimated to be \$4.3 million, excluding Measure Z.

Local Economy

The Humboldt Economic Index is a report produced by the Economics Department at Humboldt State University. It measures changes in the local economy using data from local business and organizations. The report includes a Composite Index, which is a weighted combination of six individual sectors of the local economy. The August 2018 report states the Composite Index is down 2.4 points from this time last year.

Retail sales have dipped 7.2 points lower when compared to August 2017, although the Consumer Confidence and Expectations Indexes increased by 5.5 and 5.2 points respectively. These historically high confidence levels suggest solid economic growth for the remainder of 2018 and should continue to support healthy consumer spending in the near term.

The Index of Home Sales has decreased overall from this time last year by 5.1 points; moreover, home sales have decreased by 6.1 points from July 2018 to August 2018. The statewide median home price is \$578,850 according to the California Association of Realtors. The median price has risen 4.2 percent, with a 12.4 percent decrease in sales. The median home price for Humboldt County is down from \$308,500 in June 2017 to \$305,000 in July 2017. While home prices continue to rise statewide, growth is easing in the housing market. Sales of new and existing homes have been flat over the last six months, with rising mortgage rates affecting housing affordability.

The seasonally adjusted unemployment rate for Humboldt County remained stable at 3.9 percent, compared to the state unemployment rate of 4.4 percent. The national unemployment rate increased slightly from 4.1 in July

2017 compared to 4.2 in 2018.

Beacon Economics Fall 2018 report states California's job growth has slowed but the overall economy continues to grow, outpacing 2017 by a slim margin. Over the past year, in terms of economic indicators, California has continued to land in record territory, with an increase of 332,700 jobs from this time last year. Healthcare and Leisure and Hospitality each contributed 58,000 positions, or more than one-third of the total. The state has maintained a yearly job growth rate of about 2 percent for the past several months.

A review of the HdL sales tax allocations for the first quarter of 2017 compared to the first quarter of 2018 shows an 8.2 percent decrease in point-of-sale tax revenue for Humboldt County. This is in contrast to the Beacon Economics analysis that economic expansion will continue, and U.S. and California economies are anticipated to steadily increase in 2019, albeit slowly. Decreases in point-of-sale tax revenue for Humboldt County are likely due to an evolving local economy and cannabis industry. As the local economy continues to adjust to statewide industry changes, staff will continue monitoring local economic activity, data, and trends.

Initial Budget Outlook for FY 2019-20

The General Fund ended FY 2017-18 with a \$19.8 million fund balance. The adopted budget for FY 2018-19 required the use of fund balance in the amount of \$6.1 million to finance the General Fund's budget. The County Administrative Office will bring forward an updated financial forecast report in early 2019 that will help define the financial outlook for FY 2019-20. It is estimated that FY 2018-19 will have a year-end fund balance of \$4.3 million.

On January 1, 2017 Senate Bill 1 (SB1) became effective. SB1 represents a major effort by the state to restore funding for roads. Prior to SB1, the state gas tax had remained the same for over 20 years and had not been adjusted for inflation. SB1 restores the tax rate to a level that is in line with inflation and provides funding for needed road repairs. On Nov. 6, 2018 voters weighed in on Proposition 6, the repeal of SB1, and Proposition 6 was unsuccessful, leaving SB1 intact and continuing to provide the county with necessary revenues to address deteriorating roadways.

On Nov. 6 voters of Humboldt County also approved Measure O, the public safety and essential services measure. Measure O ensures the continuation of Measure Z and ensures that Humboldt County will be able to maintain locally controlled essential services the community cares about and has come to expect - including fire and rural ambulance services at adequate levels, maintained roads, mental health services for children and 24-hour deputy sheriff's patrols across the county. In FY 2018-19, estimated revenue for Measure Z is \$11.5 million and appear to be on track. Your Board allocated this funding during the adopted budget and staff will return to your Board again at mid-year with an update. The Citizens' Advisory Committee on Measure Z Expenditures will begin meeting in January to discuss recommendation for FY 2019-20.

The county is going into the second full year of receiving cannabis excise tax revenues. Contained in today's board report is a revised estimate of \$17.7 million in anticipated cannabis excise tax revenues to be received in FY 2018-19. While staff anticipate that this revenue stream will peak in the coming year or two, initial estimates for FY 2019-20 suggest revenues of approximately \$17.7 million can be anticipated. Utilizing these revenues to fund ongoing expenses requires careful consideration as this excise tax is a new revenue source and the cannabis industry is in its infancy in terms of legalization. Cannabis excise tax revenues should not be considered a reliable source of funding until the industry matures and historical trends have been stabilized.

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, estimated at more than \$280 million. Contributions to PARS will help to stabilize the contribution rates set by the Public Employees' Retirement System (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 development incorporated an annual departmental contribution to PARS equal to 1 percent of salaries totaling \$1,242,551. While this is a significant contribution, it does not allow for an aggressive approach to addressing the unfunded liability. Staff anticipates the FY 2019-20 budget development will include a recommendation to increase the contribution rate to 1.5 percent, bringing the annual contribution to approximately \$1.8 million. The goal of the county is to reach a contribution rate of 2 percent, allowing for a more aggressive contribution to PARS and providing the county with increased financial stability to address future fluctuations in contribution rates and investment earnings. Also recommended in the budget adjustments is an additional \$1.2 million contribution to PARS.

Contained in today's report is a detailed update on the ADA consent decree with the Department of Justice (DOJ) and a number of recommendations to fund additional ADA projects to address required barrier removal in accordance with the term established by the DOJ of September 7, 2019. While the county has taken significant strides towards compliance with the consent decree, there is still more work to be done. There are currently four projects out to bid with an estimated cost of \$2.2 million. Those projects will remedy barrier removal at the correctional facility medical unit, Freshwater Park, the Fortuna Veterans Building and Clam Beach. There are also a number of projects that are currently in the design phase, with estimated costs of more than \$1 million. The creation of a one-stop permitting service location is still in the discovery phase with an estimated cost of \$11.2 million. Previously staff had reported on the need to remediate barriers at a number of curb ramp locations estimated at more than \$7 million dollars to address approximately 700 curb ramp locations. After further review, the number of curb ramps requiring remediation has increased to 1,695 with costs unknown at this time. There is an estimated \$34 million in additional ADA projects that are necessary to comply with the consent decree.

While the county finds itself in a unique position after the implementation of the cannabis excise tax, obligations to ADA, deferred maintenance of county facilities and mounting pension liabilities remain a pressing and financially straining requirement placed upon the county. Staff will continue in the coming fiscal year to stress the need for a responsible budget that places strong emphasis on increased reserves, investing in PARS and addressing failing infrastructure.

FINANCIAL IMPACT:

The recommended budget adjustments will increase the overall county General Fund budget by \$18,065,410, Economic Development fund by \$47,500, Public Health fund by \$203,392, the Library fund by \$59,231, Natural Resources fund by \$5,000, Information Technology fund by \$2,929,975, ADA Compliance fund by \$2,966,053 and the Aviation fund by \$55,343. The proposed adjustment in the General Fund will utilize an additional \$8.2 million in fund balance. If your Board chooses to allocate any additional unspent Measure Z funding, that will increase the budget accordingly.

OTHER AGENCY INVOLVEMENT:

None

ALTERNATIVES TO STAFF RECOMMENDATIONS:

The Board could choose not to approve some or all of the budget adjustments and require individual departments to return to the Board with separate supplemental budgets.

ATTACHMENTS:

- I. Measure Z recommendations and approved allocations

- II. Recommended Budget Adjustments and Appropriation Transfers
- III. Deferred Maintenance Policy

PREVIOUS ACTION/REFERRAL:

Board Order No.: C-13, C-5, J-2, F-1, J-1, C-10

Meeting of: 1/7/08, 9/15/15, 11/14/17, 4/24/18, 5/8/18, 10/2/18