



COUNTY OF HUMBOLDT

Legislation Text

File #: 19-1675, **Version:** 1

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

SUBJECT:

First Quarter Fiscal Year 2019-20 Budget Update (4/5 Vote Required)

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive a review of the Fiscal Year (FY) 2018-19 ending balances, first quarter budget results for FY 2019-20, and an initial projection of the county's budget condition for FY 2020-21;
2. Review the Humboldt County Fire Chief's request and provide direction on whether to carry forward \$1,084,189 in Measure Z funds from FY 2018-19 to FY 2019-20 for projects and equipment that were not purchased in FY 2018-19 due to unforeseen circumstances (4/5 vote required);
3. Review the County Administrative Office's request and provide direction on whether to carry forward \$48,300 in Measure Z funds from FY 2018-19 to FY 2019-20 for the audit of Measure Z funding that was not completed in FY 2018-19 (4/5 vote required);
4. 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);
5. Approve a refund of \$400,000 based on excess fund balance in the Risk Management fund (3520), to be distributed proportionately to county funds based upon past contribution to this fund;
6. Approve a refund of \$1,300,000 based on excess fund balance in the Workers' Compensation fund (3523), to be distributed proportionately to county funds based upon past contribution to this fund;
7. Approve a refund of \$950,000 based on excess fund balance in the Unemployment fund (3527), to be distributed proportionately to county funds based upon past contribution to this fund;
8. Approve a refund of \$126,000 based on excess fund balance in the Central Services (Purchasing) fund (3555), to be distributed proportionately to county funds based upon past contribution to this fund;
9. Approve the list of budget adjustments shown on Attachment II (4/5 vote required), and authorize County Administrative Office (CAO) staff and the Auditor-Controller to make any technical corrections necessary to effectuate the Board's direction;

10. Allocate 1.0 full-time equivalent Accountant-Auditor I/II (Class 0643, Range 380/404) to budget unit 111 Auditor-Controller; and
11. 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. Following is a review of all major funds, including the year-end fund balance for FY 2018-19. Recent changes to local accounting practices have had significant impacts on the portrayal of fund balance. Funds that are due to the county but have not yet been received, are now included in fund balance. Often, these revenues are not anticipated to be received for many fiscal years, as is the case with Mental Health and other Department of Health and Human Services programs. In order to represent the actual cash available to finance current year activities, receivables not yet received are not included in the year-end fund balance totals described below

Review of Year-End Fund Balances for FY 2018-19

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 2018-19, General Fund revenues received were \$134.3 million, which was 16 percent below budgetary estimates, or \$25.2 million. Actual General Fund expenditures were \$133 million, which was 20 percent below budgetary estimates, or \$32.6 million. General Fund revenues exceeded expenses by \$1.2 million in FY 2018-19. The variances between FY 2018-19 adopted and actual budget are largely the result of reduced expenditures, to align with anticipated revenues, with the largest reductions occurring for the following budget units: Contributions to Other Funds, Planning and Building, General Relief, unspent Contingency Reserves and Measure Z.

At the time of the FY 2018-19 Third Quarter Budget report the year-end fund balance was projected to be \$11.8 million. The FY 2018-19 fund balance actuals were \$9.2 million higher, or 7 percent of the total General Fund revenues received in FY 2019-20. The General Fund ended last fiscal year with a fund balance of \$21.1 million, which includes \$1.3 million of unspent Measure Z funding.

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

- \$1.8 million in additional discretionary revenue due to unanticipated sales tax, property tax and transient occupancy tax revenue
- \$255,990 in additional Code Enforcement revenues
- \$1 million in Contingency Reserves held for unanticipated expenses that went unspent
- \$281,350 million in unspent appropriations for Measure Z expenditures

- \$1.2 million in Measure Z allocations to be carried forward
- \$2.1 million in General Fund allocations to be carried forward
- \$524,969 in additional unspent appropriations due to lower than anticipated General Relief assistance payments
- \$524,873 in unspent appropriations for Advanced Planning
- \$322,575 in unspent appropriations for Facility Maintenance
- \$368,009 in unspent appropriations for the Public Defender
- \$690,968 in unspent appropriations for the Probation Department
- \$182,877 in combined unspent appropriations for expenditures from all other General Fund departments

Health & Human Services Funds

The Department of Health and Human Services (DHHS) administers six budgetary funds. All of the DHHS funds had combined expenditures of \$182.97 million and revenues of \$177.39 million, resulting in a net loss of \$5.5 million. The ending fund balance at June 30, 2019 for DHHS's budgetary funds is \$3.6 million.

Mental Health (MH) ended FY 2018-19 with a negative operating cash balance of (\$12.1 million). Long term resolutions to eliminate a negative operating cash balance for 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 lengthy claims adjudication process and cost report/settlement process, causing receivables to take multiple fiscal years before full reimbursement is realized. As of October 4, 2019, 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 \$16.8 million and date back as far as FY 2012-13. These receivables when actually received would eliminate the negative fund balance for MH. DHCS has recently taken proactive measures to improve the cost settlement timeline however MH has yet to realize the benefits from those measures.

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 Judgement, Aid to Adoptions and Foster Care placement are increasing. Other added pressures to the fund balance are the Americans with Disabilities Act (ADA) Consent Decree, and increases to employee salaries and benefits, including CalPERS expense.

1120 - Economic Development Fund

The Economic Development fund (EDF) ended FY 2018-19 with a fund balance of \$214,550. This increase is due to unspent General Fund allocations intended to expand the capacity of the Economic Development department. Contained in today's report is a recommendation to utilize \$112,500 of fund balance for new business development and an internship program. In addition, Economic Development has been awarded a \$1.3 million grant from the Bureau of Cannabis Control to support the Local Equity Program and cannabis cultivators.

1200 - Roads Fund

The Roads fund ended last fiscal year with a fund balance of \$276,791, an increase of \$470,196 from the previous year. This positive news is due to the receipt of Federal Emergency Management Agency (FEMA) funds that have begun to come in for the 2017 storm damage repairs completed in previous fiscal years. The FY 2019-20 adopted budget proposes revenues exceeding expenditures by \$163,671. Staff will monitor fund balance closely to prevent an increase in the negative fund balance in FY 2019-20.

1500 - Library Fund

The Library ended FY 2018-19 with a fund balance of \$1.2 million, an increase of \$202,372 from June 30, 2018. This is better than anticipated as the FY 2019-20 budget reflected expenditures exceeding revenues by \$253,682. The reduction in the use of fund balance is primarily due to significant salary savings associated with vacancies over the past year and the amount of time required to fill those positions.

3530 - Aviation Enterprise Fund

The Aviation Enterprise fund ended FY 2018-19 with a fund balance of \$1,112,995, an improvement of \$1.8 million. This increase is due to contributions from the General Fund and reduced Minimum Revenue Guarantee (MRG) expenditures due to sufficient passenger utilization of airline services. In order to improve the fiscal health of the Aviation Division, a Director of Aviation has been hired and staffing levels have increased to ensure that all revenues are properly collected, and aviation practices are being evaluated to develop future strategic goals. 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.

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 2018-19 with a combined fund balance of \$24.3 million, an increase of \$3 million from the previous year. The increase was due to the following:

- \$341,538 increase to the Motor Pool fund
- \$2,352,105 increase in the Communications fund due to a General Fund allocation for the Radio Infrastructure project
- \$7,373 increase to the Employee Benefits fund
- \$99,379 increase in the Workers Compensation fund
- \$667,294 increase in the Liability fund
- \$81,294 increase in the Medical fund
- \$24,697 increase in the Dental fund
- \$465,867 increase to the Roads Heavy Equipment fund

These increases have been offset by the following decreases:

- \$37,247 decrease in the Risk Management fund
- \$83,855 decrease in the Unemployment fund
- \$138,092 decrease in the Purchased Insurance fund

- \$638,858 decrease in the Information Technology fund
- \$56,950.12 decrease to the ADA Fund
- \$9,426 decrease to the Purchasing Fund

The Medical fund had a fund balance of (\$54,063) at the end of FY 2018-19, a move into the positive by \$81,294. This is due to diligent efforts to reduce the negative fund balance and improved estimation of the medical insurance expenditures. The medical fund is the only internal service fund with a negative fund balance.

In August 2019 the State Controller's Office (SCO) visited Humboldt County to conduct a field review of the county's Cost Allocation Plan. A cost allocation plan is a distribution of central services costs. Central service departments such as the Auditor-Controller, County Administrative Office, County Counsel, Human Resources, and Treasurer-Tax Collector provide services to all county departments. The federal and state governments allow these departments to charge other departments for the services received, including the federal and state programs. The SCO review identified four funds that held an excess of working capital. Accordingly, staff recommends the following refunds be distributed proportionately to county funds based upon past contributions:

- \$400,000 from Risk Management (3520)
- \$1,300,000 from Work Comp (3523)
- \$950,000 from Unemployment (3527)
- \$126,000 from Central Services/Purchasing (3555)

Review of First Quarter Budget Results

Your Board adopted the county's FY 2019-20 budget on June 25, 2019, the county continues to budget responsibly and the following details the estimated variances anticipated from the budget as of October 11, 2019.

County Budget

A review of the Hinderliter, deLlamas & Associates (HdL) comparison of sales tax allocations for the past four quarters of 2018 and 2019 as compared to the year prior shows an increase in point-of-sale tax revenue growth for Humboldt County, with the second quarter of 2019 showing a 30 percent increase over the same quarter in 2018. The California Department of Tax and Fee Administration (CDTFA) launched new software in early 2018 which delayed the timely processing of multiple returns in the year-ago quarter. Comparisons to that quarter are more heavily inflated due to the missing payments that were attributable to the second quarter 2018 activities however were not actually realized until subsequent quarters. After accounting for anomalies and making adjustments to the actuals in order to more accurately reflect the true time period that activities took place, a decline of 0.07% was experienced. Market shifts at the local level centered around the cannabis industry, coupled with the financial software updates taking place at the CDTFA, make projecting sales tax particularly difficult in the current year. As of Nov. 12, \$2,918,873 has been received in sales tax revenue, this is \$67,986 less than this same time last year. The budget for sales tax revenue has been

reduced in the current year in anticipation of a declining economy and it appears that revenues are on track to meet projections. Staff will continue to monitor and provide a further update in the Mid-Year Budget Report. Attached is a more elaborate Quarter 2 evaluation prepared by HdL (Attachment III).

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 26, 2019, a total of 321 permit applications had been approved with 947 interim permits having been issued. State legislation has approved extending provisional state licenses through 2020, allowing Planning and Building to continue issuing interim permits.

Finally, on March 26, 2019, your Board made a policy decision to modify the billing cycle of the Cannabis Excise Tax to allow for bills to be sent out in January, for the prior cultivation year, to be paid in two installments due March 15th and October 15th. This policy decision significantly impacted the revenues to be received in FY 2018-19 and 2019-20, reducing revenue projections by nearly half. In addition, your Board also directed staff to return with tax incentives on water storage, solar and clean renewable energy. These incentives, if adopted, would impact the amount of revenues received.

In FY 2019-20, \$8.01 million was budgeted for cannabis excise tax revenue, with \$281,497 received year to date. As of October 1, 2019, approximately 498 permits have been approved, with nearly 750 interim permits issued. The March 2020 installment for the cannabis excise tax bills are currently estimated to be \$13 million. Staff anticipate that a significant portion of the tax installments will remain delinquent and unpaid. The delinquency rate for the cannabis excise tax was 20 percent in calendar year 2018. In addition, the county is currently facing litigation that questions the validity of the amendments to Measure S. The outcome of this litigation could impact this revenue source in the current and future fiscal years. Given the evolving nature of this revenue source, and the billing that will occur late in FY 2019-20, staff do not recommend any revenue adjustments at this time.

Friends of the Eel River vs. County of Humboldt

On Oct. 1, 2019, your Board voted unanimously to authorize a global settlement agreement resolving

all of the issues detailed in the case of Friends of the Eel River vs. County of Humboldt. In this case, the Friends of the Eel River allege violations of the California Environmental Quality Act (CEQA) as it relates to Ordinance 2599 entitled “Commercial Cannabis Land Use Ordinance-Outside the Coastal Zone (CCLIO)” which allows for a specified number of permits and cultivated acres for new cultivation sites. Included in this settlement is an agreement for the county to establish a “Mitigation and Remediation Fund” using fines from cannabis civil enforcement actions. Funds shall be used exclusively to establish a grant program to fund public and private sediment reduction programs associated with roads servicing cannabis cultivation sites. Funds are to be prioritized for cannabis cultivators and road maintenance associations based upon the water quality benefits that would result from the proposed projects. The settlement agreement stipulates that at least \$1.1 million shall be made available for these grants in the first year and 20% of all collected cannabis fines and penalties each year for the next three years. Contained in today’s report is a recommendation to allocate funding of \$1.1 million to be utilized for this purpose.

In Home Support Services

In Home Supportive Services (IHSS) providers received a \$0.50 wage increase which went into effect November 1, 2019. The cost associated with the locally negotiated wage increase for Fiscal Year 2019-20 is estimated at \$99,925 and will be added to the County of Humboldt’s Maintenance of Effort (MOE) for the program. The FY 2018-19 MOE was \$4,030,465, however, this amount and its calculation methodology has been changed with the passage of the Governor’s FY 2019-20 Budget. The MOE will be further increased for the county once the state’s minimum wage increase goes into effect January 1, 2020. The full impact of this increase remain unknown at this time as there has been no official letter released by the state detailing each county’s FY 2019-20 MOE obligation.

Homelessness grants

DHHS has been successfully awarded nearly \$3.7 million in grants to assist with outreach, housing development and rental assistance to help combat homelessness in Humboldt County. DHHS is partnering with the City of Eureka, Arcata House Partnership, Affordable Homeless Housing Alternatives (AHHA), the Humboldt Senior Resource Center, the Housing Authority, Danco Builders, as well as, several others on this endeavor.

Over the past year, DHHS has worked with community partners to increase housing unit stock and through the use of master lease agreements, reserved 25 low income housing units at Rio Dell, 25 units at the 4th Street veterans housing site, and 20 units at Samoa Vance family housing site for its clients.

Court Transcripts

Over the last 5-plus years the county and courts have at times paid for court reporter transcripts that are the responsibility of the other agency. The county has also paid for some psychological evaluations that are a responsibility of the state and not the county. These costs are paid for out of the county’s General Fund (budget unit 1100-250). The county and courts recently requested reimbursement from each other for these costs. The courts requested reimbursement in the amount of \$242,216.88, while the county requested reimbursement in the amount of \$215,395.80. The costs being requested by the courts will likely need to be paid by 1100-250, and after receiving reimbursement from the court the total net cost to the county is estimated at \$26,821.08. Going forward, the county is working with court staff on

invoicing practices to ensure the county receives only the invoices for which it is responsible. However, the county will continue to monitor invoices going forward and request reimbursement where necessary.

Pension Rate Stabilization

Humboldt County provides defined-benefit pensions to its retirees through the California Public Employees Retirement System (CalPERS). Funding of CalPERS pensions relies on three sources: employee contributions, which are established by law; investment returns, which vary according to financial market performance; and employer contributions, which are increased or decreased in accordance with the performance of the other two funding sources against the expectations of funding need. CalPERS phases in adjustments to employer contributions to minimize the variations due to market swings. The effect of this phasing is to create either a “superfunded” status or an unfunded liability which should be made up in future years. Humboldt County has amassed an unfunded liability of more than \$288 million.

On Sept. 15, 2015, the Board, via Resolution No. 15-98, authorized the establishment of an irrevocable post-employment benefits trust program, also known as a Section 115 trust, administered by Public Agency Retirement Services (PARS). This trust was created for the purpose of pre-funding pension obligations and/or Other Post Employment Benefit obligations. The PARS Pension Rate Stabilization Program (PRSP), established via Internal Revenue Code Section 115 irrevocable trust, is designed to pre-fund pension costs and offset pension liabilities. The primary objective of GASB 68 is to provide more comparable and visible information of pension benefits within the annual accounting and financial reporting by state and local governments. Depicting the unfunded liability (net pension liability) within the annual financial reports provides a clearer picture of pension cost obligations. Inasmuch, the PRSP allows the county to securely set aside funds through a tax-exempt funding mechanism (115 trust account) to mitigate long-term contribution rate volatility.

In addition, on March 14, 2017, your Board approved a Pension Funding Policy allowing for an annual departmental contribution to PARS ranging from .25% to 2% of salaries, depending on financial resources. The State Controller’s Office (SCO), as a requirement of Federal Register Vol. 78 No. 248 (2 CFR) Section 200.431, addressing Compensation Plan Fringe Benefits, requires an actuarial to support contributions to a PRSP from non-General Fund programs. Charges for a PRSP may be approved by the SCO through the Cost Allocation Plan, which permits charging departments for services provided by support departments such as Information Technology, Risk Management and Purchasing. The SCO has not approved charges for PARS. The County Administrative Office has provided an additional report to the SCO for consideration and approval.

As of the day of this report, the total funds held in the PARS trust total \$5,945,817.80. Of this balance, \$520,817.80 is investment earnings. An additional \$546,737.75 remains held in fund 3249-Employer PARS Contributions. Below details the amount of funds associated to contributions from the General Fund and all other funds:

PARS	Fund Balance	Total
Contributions Interest Earned		

Contributions from General Fund	\$ 4,369,224.1	\$ 399,555.49	\$ 212,110.25	\$ 4,980,890.04
Contributions from Other Funds	\$ 1,055,775.1	\$ 121,262.31	\$ 334,627.50	\$ 1,511,665.51
Total	\$ 5,425,000.1	\$ 520,817.80	\$ 546,737.75	\$ 6,492,555.55

Contained in today's report is a recommendation to allocate \$17,000 to contract for actuarial services in order to comply with SCO requirements for future fiscal years.

Measure Z

The Humboldt County Fire Chief's Association (HCFCA), was allocated \$2,353,156 in FY 2018-19 to purchase fire-related equipment, fire dispatch services and provide for planning-related services. On Sept. 3, 2019, the HCFCA submitted a request (Attachment IV) to carry forward \$904,684 for building projects, equipment purchases and fire service planning that was not completed in FY 2018-19. In addition, \$131,767 was submitted for the fourth quarter payment in FY 2018-19 however was not submitted in time to post in the correct year and instead has been realized in FY 2019-20. Accordingly, staff recommend your Board approve the carry forward of \$1,036,451 in appropriations.

In addition, your Board allocated \$48,300 to conduct an audit of Measure Z funding. The County Administrative Office has contracted with CliftonLarsonAllen (CLA) to perform that audit, however due to timing constraints on part of CLA, that work was not able to begin until FY 2019-20. Accordingly, staff recommend your Board approve the carry forward of \$48,300 from FY 2018-19 into FY 2019-20 so that the audit of Measure Z funding may continue in the new year.

The FY 2019-20 budget includes \$10.9 million in Measure Z revenues, with an anticipated shortfall in FY 2018-19 of \$164,271. The FY 2019-20 adopted budget contained Measure Z expenditures of \$10.7 million. As of November 8, 2019, the county has received \$4.1 million for the months of July through September in sales tax receipts as a result of Measure Z. This is \$209,786 less than this same time last year. Revenue estimates for FY 2019-20 have been reduced from the prior year due to declining trends. In FY 2018-19, actual revenues were \$10.8 million, indicating another possible shortfall in FY 2019-20. Staff will closely monitor revenues to keep your Board apprised as the year progresses.

If the carry forward requests are approved, there will be \$439,012 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 propose allocating any unspent funds to Public Works road resurfacing project.

FY 2019-20 Beginning Fund Balance	\$1,359,492
FY 2019-20 Adopted Revenue	10,928,563
FY 2019-20 Adopted Expenditures	(10,764,292)
Proposed Measure Z Carry Forward	<u>(1,084,751)</u>
Estimated Fund Balance FY 2019-20	\$ 439,012

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 \$439,012.

Americans with Disabilities Act (ADA) Update

On September 7, 2016 the county entered into a consent decree with the Department of Justice (DOJ) to bring county-owned and leased facilities into compliance with the ADA by September 7, 2019. The county is officially three years into the consent decree. The consent decree continues six months beyond the September 2019 three-year mark to March 7, 2020 allowing the county to continue with specified DOJ consent decree barrier removal and plan for full compliance work moving forward.

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 DOJ consent decree. The County has made significant progress in many of its facilities including the removal of all consent decree barriers in 28 county facilities. The county cost for barrier removal at the facilities listed below is approximately \$983,000.

- 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 (Altered), 808 E Street
- Child Support Services

- McKinleyville Sheriff's Substation
- Trinidad Library
- Willow Creek Library
- Public Health (WIC) Office, 1108 Main Street
- Redwood Regional Economic Development (Ec Dev)
- Fields Landing Boat Launch
- Courthouse (15 month)
- Ferndale Public Library
- Freshwater Park
- Hope Center
- DHHS - Public Guardian
- Social Services, Buildings D&G
- Social Services, Building B
- Social Services, Building C, 445 W Washington
- Pro Building, 507 F Street
- Fortuna Veterans Building
- Rio Dell Library

In addition to the facilities listed above, there are nine facilities that either no longer belong to the county, have been closed, and/or programmatic access or technically infeasible reasoning has been applied. Of the facilities listed below five of these facilities required ADA barrier removal with project costs totaling approximately \$90,000.

- Luffenholtz Park, 1720 Scenic Drive, Trinidad (no longer County)
- Willow Creek SCOP (program no longer exists in Willow Creek)
- Children's Shelter, 2956 D Street (County no longer owns this piece of property)
- Public Health in Willow Creek (technically infeasible to remove remaining barriers)
- Case Management (program access applied)
- Veterans Memorial Building (building closed in Garberville)

- 317 2nd Street (only barrier in the city)
- Humboldt County Main Library (Showers)
- Humboldt County Courthouse (Court Space)

The county has 15 projects in varying stages of design or construction with total project costs estimated at \$ 12 million.

- Coroner - Under construction
- Clam Beach - Under construction
- A.W. Way County Park - Under construction
- Social Services Building A - Under construction
- Mental Health (720 Wood) - Under construction
- Juvenile Hall - Under construction
- Public Defender - Complete pending SZS Inspection
- Garberville Mini-Complex - In design
- Regional Facility - In design
- Juvenile Probation Main - In design
- Humboldt Correctional Facility - partially complete - Jail shower project in design
- Clark Complex (Administration Building, Land Use and Community Development) - In design
- CAST & Victim Witness (5th Floor Remodel) - Under Construction
- Garberville Substation - Complete pending inspection
- The county retained an Independent Licensed Architect (ILA). Costs for the ILA through September 30, 2019, total \$2,162,549.

Additional ADA work being done includes the following:

- The county retained four design firms for project design and management for ADA barrier removal and plan check services. The cost through August 30, 2019, for services billed is \$718,073 with and additional \$434,097 outstanding.
- The county adopted three county-wide policies addressing multiple ADA requirements.
 - Service Animal Policy
 - Effective Communication Policy
 - Website Accessibility Policy
- The county has remediated barriers at 80 curb ramps in the Eureka, McKinleyville and Scotia areas. There are 1329 curb ramps remaining to address. Total project costs are estimated at \$7 million.

- The county has on staff five Certified ADA Coordinators and two Certified Access Specialists. Three employees are in varying stages of their Certified Access Specialist certification.
- The county has retained two consultants to develop ADA Transitions Plans to remediate barriers to access, not specified in the consent decree, to bring all county facilities offering programs, services or activities to the public into full compliance with the ADA and develop a plan for barrier removal in the Public Rights of Way. Staff anticipates holding public meetings for input to these transition plans in the next few months and bring these plans to your Board for approval shortly thereafter. The ADA Transition Plan will tie into the Facilities Master Plan currently in development. Costs for the ADA Transition Plans are anticipated to be \$125,000.
- The county continues 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.
- Since the signing of the consent decree, the ADA Trust Fund (4491) has received approximately \$6.8 million in General Fund contributions for ADA improvements. Approximately \$3.4 million has been used for ADA improvement projects, leaving a fund balance of \$3.4 million.
- Your Board adopted a budget totaling \$8.4 million for ADA Compliance unit in the current fiscal year. This budget unit contains the operating budget for the county's ADA Compliance effort including operating expenses, building modifications and capital asset project expenses.

Recommendations

One-time Expenditures

Based on actual discretionary revenue received in FY 2018-19, budgeted totals for FY 2019-20 appear to be on target. The FY 2019-20 budget was adopted using fund balance of \$5.8 million, all of which was for one-time expenditures.

Based on an ending General Fund balance of \$21.1 million 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 2019-20 Governor's Budget Summary, the state continues to demonstrate responsible spending. The Governor emphasizes the need to pay down debt and unfunded retirement liabilities. The county is taking a very similar approach as the FY 2019-20 budget limits additional on-going expenditures and accentuates the need to invest in prefunding pension liabilities, ADA, Capital Projects, Contingencies and Reserves. Due to a higher-than-estimated General Fund balance, the CAO recommends using \$6.4 million of the General Fund's balance for the following expenses:

- \$41,450 County Administrative Office (1100-103) - Funding for extra-help to cover an anticipated staffing shortage beginning in January 2020, office furniture for an additional office space, staff training and development, and consulting services to work with a team of department heads to move the county towards becoming a high performing organization and to

improve the work culture. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by investing in county employees.

- \$17,000 County Administrative Office (1100-103) - Funding to contract for an actuarial to support contributions to a pension rate stabilization fund. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by investing in county employees and managing resources to ensure sustainability.
- \$27,400 Human Resources (1100-130) - Funding for the Human Resources Director recruitment. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by investing in county employees.
- \$37,940 Human Resources (1100-130) - Funding for OneSolution Personnel Action Form upgrades and OneSolution payroll configuration. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by investing in county employees, and providing for and maintaining infrastructure.
- \$101,560 Human Resources (1100-130) - Funding for one full-time extra help Human Resources Program Manager and one full-time extra help Payroll Specialist to assist with the on-going payroll transition from the Auditor-Controller's Office to Human Resources. Funding for this is available through fund balance. This supplemental budget supports the Board's strategic framework by managing county resources to ensure sustainability of services.
- \$2,422,854 COP Payments (1100-190) - Funding to pay off the 2016 Finance Plan due to increased interest rates and to move forward with a 2019 Financing Plan. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by providing for and maintaining infrastructure.
- \$20,369 Contributions to Other (1100-199) - A contribution to Arcata Fire Protection District (AFPD) to correct an administrative error. In FY 2018-19, a Measure Z invoice was paid for AFPD dispatch services. This reimbursement was credited to the Building Inspector budget unit 1100-262, rather than AFPD as intended. This contribution will correct that error. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by facilitating partnerships to solve problems.
- \$1,000,000 Contributions to Other (1100-199) - A contribution to Capital Projects to facilitate the move of Planning and Building from the Clark Street Complex to an ADA compliant facility that can accommodate Planning and Building staff, and establishing a one-stop permitting location. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by providing for and maintaining infrastructure.
- \$2,500 Contributions to Other (1100-199) - A contribution to Area 1 Agency on Aging (A1AA) to conduct a mandated Senior Survey of Needs and Concerns. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by protecting vulnerable populations.
- \$4,800 Contributions to Other (1100-199) - A contribution to Deferred Maintenance for maintenance needs at the Courthouse Café. Funding for this is available through rent payments by the lessee of the Courthouse Café. This supplemental budget supports the Board's Strategic Framework by providing for and maintaining infrastructure.
- \$42,867 Contributions to Other (1100-199) - A contribution to Information Technology to install a Courthouse access system to improve security. Funding for this is available through fund

balance. This supplemental budget supports the Board's Strategic Framework by providing for and maintaining infrastructure.

- \$182,293 Contributions to Other (1100-199) - A contribution to Economic Development for Track and Trace stamp revenue received in FY 2018-19 that your Board earmarked for Economic Development activities to stimulate the cannabis industry. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability.
- \$324,000 Contributions to Other (1100-199) - A contribution to Aviation to complete an aeronautical lease study. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability.
- \$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.
- \$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
- \$27,000 Agricultural Commissioner (1100-261) - Funding for electrical panel upgrades to the Agricultural Building and to purchase a generator. Funding for this 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.
- \$20,987 Building Inspector (1100-262) - Funding for floor repairs and cabling to create additional workspaces at the Clark Complex. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by investing in county employees.
- \$1,100,000 Contingency Reserve (1100-990) - A contribution to Contingencies to establish a grant program to fund public and private sediment reduction programs associated with roads servicing cannabis cultivation sites in accordance with the settlement agreement concerning the Friends of the Eel River vs. the County of Humboldt. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability.
- \$1,000,000 Contingency Reserve (1100-990) - A contribution to Contingencies in order to appropriate these funds to the General Reserve in FY 2020-21. This will begin to bring the county more in-line with the Board adopted General Reserve policy of 10% of General Fund revenues. Funding for this contribution is available through fund balance. 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:

- \$25,000 County Administrative Office (1100-103) - Funding to contract for accounting services as recommended by the Grand Jury. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by investing in county employees.
- \$2,724 County Administrative Office (1100-103) - Funding for increased State and Federal Legislative Advocacy costs. Funding is available through fund balance. This supplemental budget supports the Board's Strategic Framework by facilitating public/private partnerships to solve problems.
- \$32,729 Auditor-Controller (1100-111) - Funding for 1.0 full-time equivalent (FTE) Accountant -Auditor I/II to provide additional support to the Auditor-Controller's office. A request was made for 2.0 FTE Accountant-Auditor I/II positions, however only 1.0 FTE is recommended at this time. Funding for this request is available through fund balance. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability of services.
- \$14,500 Human Resources (1100-130) - Funding for a required Governmental Accounting Standards Board (GASB) 68 report regarding pensions and the new CalPERS Annual Fee for agencies who contract for a Social Security offset/reduction for pension calculations. 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.
- \$16,000 Human Resources (1100-130) - Funding is for AdastraGov Labor Costing software. Funding was previously allocated in the Liability Fund (3524354- 2118). This is a 5-year contract, starting in FY 18-19, with the annual fee being reduced to \$5,000 in years 3 and 4 of the contract. 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.
- \$35,000 Sheriff Operations (1100-221) -Funding for extra help dispatch staff to allow the Probation Department to utilize the county dispatch system. Funding for this is available through fund balance. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability.

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:

- \$112,500 Economic Development (1120-275) - Funding to provide staff training and team

development, new business development and community outreach and education through an internship program with Humboldt State University and College of the Redwoods. Funding for this is available through a General Fund allocation made in FY 2018-19 that remains held in fund balance. This supplemental budget supports the Board's Strategic Framework by managing resources to ensure sustainability and engaging in discussions of the regional economic future.

- \$1,338,683 Economic Development (1120-275) - Funding for the Project Trellis Local Equity Program. Funding for this is available through a Bureau of Cannabis Control grant. This supplemental budget supports the Board's Strategic Framework by seeking outside funding sources to benefit Humboldt County needs.
- \$20,348 Risk Management (3520-359) - Funding for one extra help Office Assistant due to the interim appointment of the department's Administrative Services Officer to the Risk Manager position. Funding is available through fund balance. This supplemental budget supports the Board's strategic framework by managing county resources to ensure sustainability of services.

Approve Position Allocation Modifications

Similar to budget adjustments, the CAO during the first Quarter Budget Report will also bring forward position allocation 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 1.0 full-time equivalents and are as follows:

Auditor-Controller (1100-111)

1.0 FTE Accountant-Auditor I/II

FY 2019-20 Year-End Fund Balance

1100 - General Fund	
FY 2019-20 Beginning Fund Balance	\$21,176,669
FY 2019-20 Adopted Revenue	\$152,303,506
FY 2019-20 Adopted Use of Fund Balance	\$4,672,350
FY 2019-20 Adopted Other Financing Sources	\$5,807,712
FY 2019-20 Adopted Expenditures	(\$162,783,568)
Budget Adjustment approved 11/19	(\$110,880)
Estimated FY 2019-20 Year-End Fund Balance	\$15,368,957
Carry Forward	(\$1,267,044)
Recommended Budget Adjustments	(\$7,894,173)
Estimated Fund Balance Available to Finance FY 19-20 (w/o Mea	\$5,768,728
Estimated Measure Z Fund Balance Available to Finance FY 19-20 \$	439,012

As discussed above, staff recommends allocations of \$7.8 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 2019-20 year-end fund balance is estimated to be \$5.7 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 2019 report states the Composite Index is down 0.6 points from this time last year.

Retail sales have increased 3.3 points when compared to August 2018, although the Consumer Confidence and Expectations Indexes decreased by 0.7 and 5.4 points respectively. Despite moderate cooling, Consumer Confidence and Expectations remain strong. While other parts of the economy may show some weakening, consumers have remained confident and willing to spend. However, persistent trade and tariff tensions could potentially dampen consumers' optimism regarding the short-term economic outlook.

The Index of Home Sales has increased overall from this time last year by 12.4 points; however, home sales decreased by 6.4 points from July 2019 to August 2019 as the market ended its peak season. The median home price for Humboldt County has increased from \$305,000 in June 2018 to \$330,000 in June 2019. The statewide median home price is at an all-time high of \$617,410 according to the California Association of Realtors, an increase of \$38,560 over this time last year. The median price has risen 3.6 percent, with a 1.6 percent increase in sales. Sales are constrained by tight supply, particularly at the low end. Despite declining growth in the housing market, California home sales had their first back-to-back yearly gain since April 2018. While home prices continue to rise statewide, mortgage rates are the lowest in 34 months, with an average rate of 3.49% as of September 2019.

The seasonally adjusted unemployment rate for Humboldt County remained stable at 3.9%, compared to the state unemployment rate of 4.1%. The national unemployment rate decreased from 4.2% in July 2018, to 3.7% in August 2019.

Beacon Economics' Fall 2019 report states that California's economy is humming along and expected to stay on track into 2020. Over the past year, in terms of economic indicators, California added 311,800 jobs as of July, and has accounted for 16% of job gains nationally through the first seven months of 2019. Wages continue to climb, and the state has maintained a yearly job growth rate of 1.8%, comfortably above the long run growth rate (since 1991) of 1.2%. Health Care; Professional, Scientific and Technical Services; Leisure and Hospitality; and Construction led the way, accounting for roughly two-thirds of the state's total job gains.

Initial Budget Outlook for FY 2020-21

The General Fund ended FY 2018-19 with a \$21.1 million fund balance. The adopted budget for FY 2019-20 utilized fund balance in the amount of \$5.8 million to finance the General Fund's budget. The

County Administrative Office will bring forward an updated financial forecast report in early 2020 that will help define the financial outlook for FY 2020-21. It is estimated that FY 2019-20 will have a year-end fund balance of \$5.7 million.

Due to policy decisions made in FY 2018-19, payment of excise taxes were delayed until March 2020, causing a reduction in revenues in FY 2019-20. In addition, staff continue to evaluate policies to provide relief to local cultivators. Currently staff are evaluating an incentive program that will reduce tax impacts for “small” cultivation farms, road improvements, and the use of solar energy. While staff anticipate that this revenue stream will peak in the coming year or two, initial estimates for FY 2020-21 suggest revenues of approximately \$20.8 million can be anticipated. However, these initial estimates will be substantially reduced if your Board were to make any additional policy changes, such as adopting an incentive program. Utilizing these revenues to fund on-going 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.

As previously mentioned, in August 2019 the SCO performed a field audit of the county’s cost allocation plan. A finding from the SCO field audit stated the county had not provided an actuarial report to support the PARS section 115 trust charges as required pursuant to 2 CFR 200.431(g)(6)(iii). In response, staff worked with GovInvest software to create a report depicting the county’s unfunded pension liability and submitted to the SCO, however the report was deemed insufficient. Upon learning that the GovInvest document would not support the Section 115 charges to non-General Fund departments, staff provided a report from Bartel & Associates (an actuarial firm) dated 2016. The SCO has yet to make a final decision regarding the 2016 actuarial report from Bartel & Associates. If the SCO determines the document is not adequate, the county will return the Section 115 charges back to the non-General Fund departments. The county has ceased collecting the percentage of salary charges for FY 2019-20. For future fiscal years, the county will contract with an actuarial firm to provide a report that contains a sufficiently detailed analysis to support the Section 115 charges for non-General Fund departments.

Contained in today’s report is a detailed update on the ADA consent decree with the Department of Justice (DOJ) and a recommendation to contribute \$1.2 million for ADA projects to address required barrier removal in accordance with the DOJ Consent Decree. While the county has taken significant strides towards compliance with the consent decree, there is still more work to be done. There are 10 projects in varying stages of construction with estimated costs of more than \$5.7 million. These projects include Coroner, Clam Beach, A.W. Way Park, Jail Medical, Social Services A, 720 Wood, Public Defender, 5th Floor remodel and needed work at the Garberville Substation pending its relocation. There are currently six projects in design estimated at \$8.6 million. These projects will remedy barrier removal at the Regional Facility, Juvenile Probation Main, Correctional Facility Shower project Phase I and II, Planning and Building and Land Use, and the Garberville Mini Complex. It is anticipated that 5 of the 6 projects will be out to bid and in varying stages of construction by the end of the fiscal year. The one exception is Jail Showers Phase II which will not bid or begin construction until the completion of the SB 863, Correction’s Resource Reentry project. Once barriers for facilities specified in the Consent Decree are complete the county must begin to

remove barriers to access in all county facilities that offer a program, service or activity to the public. Current costs are estimated at approximately \$45 million with a minimum of \$37 million or more being the responsibility of the county. The county has contracted with a consultant to assist with an ADA Transition Plan that will assist the county in moving remaining projects forward.

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 increased to 1,396 with costs unknown at this time. Of the 1,396, 80 have had barriers successfully removed. The county has since received its Public Rights of Way ADA Access Compliance Assessment reports that addresses barriers in the unincorporated areas of the county generally leading to a program, service or activity including polling stations. The cost for barrier removal in the Public Rights of Way is estimated at approximately \$2.3 million. The county has contracted with a consultant to assist with a Public Rights of Way Transition Plan. The creation of a one-stop permitting service location is still in the discovery phase with an estimated cost of \$11.2 million.

Dispatch Services

Recently staff have been communicating with CalFIRE regarding the future charges for providing fire protection services to Community Service Area #4 (CSA#4) and dispatch services. CalFIRE has indicated that it is likely that costs will increase substantially, particularly for dispatch services. On Oct. 8, 2019, your Board approved a one-year contract with CalFIRE for these services, this is the final year that rates will remain relatively status quo. Initial projections from CalFIRE indicate dispatch services for a three-year period will increase from approximately \$411,000 to \$1.16 million. In recent years, the county has engaged in discussions regarding cooperative dispatch, where one dispatch center will serve the entire county, rather than the piece meal dispatch that currently takes place through the collaboration of many agencies. As staff continue conversations regarding the future of dispatch, it may be prudent to begin the move to cooperative dispatch. Your Board approved funding for the Sheriff on November 14, 2017 to secure a study for consolidated dispatch services. Staff will keep your Board apprised as more information becomes known and options are explored.

Friends of the Eel River vs. County of Humboldt

As previously mentioned, your Board voted unanimously to authorize a global settlement agreement resolving all of the issues detailed in the case of Friends of the Eel River vs. County of Humboldt. The settlement agreement stipulates that at least 20% of all collected Code Enforcement fines and penalties be prioritized each year for the next three years to fund projects proposed by cannabis cultivators and road maintenance associations that would result in water quality benefits. Based upon FY 2019-20 adopted budget, this would be an allocation of approximately \$400,000 annually.

FINANCIAL IMPACT:

The recommended budget adjustments will increase the overall county General Fund budget by \$7,898,973, Economic Development fund by \$1,633,476, Information Technology fund by \$42,867, Risk Management fund by \$20,348 and the Aviation fund by \$324,000. If your Board chooses to allocate any additional unspent Measure Z funding, that will increase the budget accordingly.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by managing our resources to ensure sustainability of services , providing for and maintaining infrastructure, and investing in county employees.

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. Hinderliter, de Llamas and Associates Second Quarter Report
- IV. HCFA Measure Z Request

PREVIOUS ACTION/REFERRAL:

Board Order No.: C-5, C-11, C-8, C-11, H-1, H-2, C-11, F-2

Meeting of: 9/15/15, 8/9/16, 3/14/17, 6/27/17, 9/5/17, 9/19/17, 10/24/17, 11/14/17

File No.: N/A