



COUNTY OF HUMBOLDT

Legislation Text

File #: 21-722, **Version:** 1

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

SUBJECT:

Proposed Fiscal Year (FY) 2021-22 Budget

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive and review Humboldt County's Proposed FY 2021-22 Budget;
2. Adopt a Resolution Authorizing an Inter-Fund Loan for the Forest Resources and Recreation Fund (1710) (Attachment I);
3. Approve the transfer of \$1,368,526 in FY 2021-22 from the Tax Loss Reserve Fund (3010) to the General Fund;
4. Review and provide direction on the allocation of unspent Measure Z revenues received in FY 2020-21;
5. Review and approved the proposed spending plan for American Rescue Plan Act (ARPA) funds, and direct staff to return with a more detailed budget;
6. Authorize department heads to approve voluntary unpaid furloughs for employees under their appointing authority for FY 2021-22, utilizing the attached form (Attachment II and Exhibit A);
7. Direct the Clerk of the Board to post and publish the required public hearing notice for the FY 2021-22 Proposed County Budget at least 10 (ten) days prior to the public hearing; two publications are required, with at least five (5) days intervening between the dates of the first and last publications, not counting such publication dates (Attachment III);
8. Continue the budget discussion to the public hearings scheduled for Monday, June 21, 2021 (1:30 p.m. and 5:30 p.m.);

9. Direct the County Administrative Officer to return to the Board on June 29, 2021, to consider adoption of the final budget for FY 2021-22; and

10. Take other action as appropriate.

SOURCE OF FUNDING:

All county funds

DISCUSSION:

Annually, the County Administrative Office (CAO) presents a proposed budget. California Government Code Sections 29000 through 30200, known as The County Budget Act, as applied through rules issued by the Office of the State Controller, provide the legal requirements pertaining to the content of the proposed budget, adoption procedures and dates by which action must be taken. The CAO, as designated by the Board, is responsible for completing the budget process pursuant to state code.

Locally, the budget process is lengthy and includes the below steps:

- On Jan. 26, 2021, as part of the Mid-Year Budget Review, your Board set parameters for the development of the FY 2021-22 budget for General Fund allocations and the budget calendar. The parameters included direction to set departmental allocations from the General Fund to remain the same as in FY 2020-21 with exceptions for Measure Z and those departments that have received increased ongoing General Fund allocations during FY 2020-21. In addition, your Board directed staff to accept Additional Requests for General Fund Appropriation (additional funding requests) in the FY 2021-22 budget with a preference given to one-time requests.
- Preparation of the proposed budget began on Feb. 5, 2021, when CAO staff presented to departments the parameters for development of their FY 2021-22 budget requests. Departments were asked to submit their requests to the CAO by March 16, 2021. The CAO reviewed the budget and additional funding requests from March through May 2021.
- Presentation of the proposed budget is before your Board today.
- Public hearings on the proposed budget are scheduled to be held on June 21, 2021.
- The final budget is anticipated to be adopted on June 29, 2021.

On Nov. 23, 2020, Jan. 26, 2021 and Feb. 23, 2021, staff brought your Board reports on a number of financial concerns surrounding outstanding financial transactions. These reports detailed the below items reported as outstanding and today's report provides an update.

Outstanding Item #1: Closing of FY 2019-20

In the normal course of business, the county's books are closed by the Auditor-Controller (AC) following a reasonable period of time after the end of a given fiscal year (June 30). Closing the books means that all financial transactions have been properly recorded and accounted for in the county's accounting system. After the fiscal year is closed, the county's financial statements are prepared. Then, independent auditors audit these financial statements, as required by law. In the past, closing the fiscal year was completed in September or early October, approximately 3 months after the end of the prior fiscal year, and the annual external audit was completed by the end of December.

Update:

On May 20, 2021, the Auditor-Controller (AC) reported at the second meeting of the Audit Committee (formed by your Board on March 16, 2021) that the year-end closing and Single Audit were on track to meet the deadline of Sept. 30, 2021. In response to COVID-19, the Federal Office of Management and Budget (OMB) announced an extension of the Single Audit Deadline to Sept. 30, 2021. Under a typical scenario, the audit would have been completed by March 31, 2021.

Outstanding Item #2: Delays in Interest Apportionment

Quarterly, the Treasurer is required to determine how much interest should be apportioned across all interest-bearing funds based on the average daily balance of those funds throughout each quarter. The average daily balance cannot be calculated until the Auditor-Controller posts and reconciles all transactions that took place during that quarter. Interest is then equitably distributed to all treasury pool participants including the schools and community college, special districts, and the county's General Fund. The General Fund relies on the timely apportionment of interest to fund critical local services.

Update:

On Feb. 20, 2021, the Auditor-Controller reported to the Audit Committee that the FY 2019-20 4th quarter interest could be apportioned once all cash has posted. The Treasurer-Tax Collector (TTC) responded that their office was awaiting confirmation that all cash had in fact posted in order to apportion interest. The TTC did not receive that confirmation through the Audit Committee or in subsequent communications. Furthermore, interest revenue totaling \$788,599 associated to FY 2018-19 remains allocated in fund 3105, FY 2019-20 4th Quarter has not been apportioned and no interest has been apportioned for all of FY 2020-21.

Outstanding Item #3: FY 2020-21 Cost Allocation Plan (CAP)

The county is required to have a state-approved CAP to receive reimbursement from state and federal agencies for internal service and central service costs.

The negative impact of not having a CAP for FY 2020-21 is an estimated loss of federal and state dollars in the amount of \$15.3 million.

A loss of \$15.3 million creates an estimated deficit of \$6.1 million across 5 funds (ADA, Information Technology, Liability, Purchasing and Workers Compensation). The General Fund is the only source of funding to reduce these estimated negative fund balances. This would place the county in a self-made financial crisis, one that could result in service reductions in service to the public and lay-offs of county staff.

Update:

On June 3, 2021, the AC has reported that the FY 2020-21 Cost Allocation Plan was approved by the State Controller's Office. Staff will now begin submitting Internal Service Charges to the Auditor-Controller. The FY 2021-22 CAP will reportedly be submitted soon now that approval of the current year has been received.

Fiscal Year 2021-22

Today, the total proposed budget (or spending plan) before your Board for FY 2021-22 is \$505,629,559. The total proposed budget represents an increase of \$40,157,332, or 9% more than the budget your Board adopted for the current FY 2020-21. This increase is primarily due to the following:

- \$3.3 million for Economic Development activities, primarily related to Project Trellis
- \$16.7 million for Roads, including 2017 and 2019 storm damage repair projects
- \$15.6 million for planning and construction of the Manila and Humboldt Bay Trail.
- \$12.8 million for state and federally reimbursable activities in Health and Human Services

These increases are partially offset by the below decreases:

- \$6 million due to the completion of 11 Natural Resources projects
- \$1.4 million decrease to the General Fund as detailed below
- \$851,000 for all other funds

The FY 2021-22 budget proposes that your Board allocate \$155,508,878 in General Fund Expenditures, which is a decrease of \$1,431,675, or 1%, from the prior year. This decrease is due to the following:

- \$3.12 million due to the completion of the 5th floor remodel
- \$8 million due to the reclassification of contributions to other funds and agencies to "Other Financing Uses"
- \$1.7 million due to the completion of the Sea Level Rise Adaptation Plan and the Williams Creek Emergency Streambank Repair project.

These decreases are partially offset by the following increases:

- \$733,003 for the Management and Budget Team
- \$305,208 for Personnel Services
- \$496,659 for Facilities Management
- \$2.9 million for Sheriff Operations and Corrections
- \$4.1 million for Planning and Building
- \$1.4 million in Measure Z expenditures
- \$1.5 million in all other General Fund budget units

Due to changes in local accounting practices, there is an \$8 million decrease in expenditures associated to transfers to other agencies and funds that are now classified as "Other Financing Uses" as opposed to "Expenditures". Without this accounting change, the General Fund expenditures would have

actually increased by \$6.6 million, or 5%, over the FY 2020-21 adopted budget.

In the General Fund, projected revenues for FY 2021-22 are \$148,629,614, which is an increase of \$1,775,476, or 1%, from FY 2020-21. This revenue increase is primarily due to increased building permit fees, property and sales tax and Measure Z. In FY 2021-22, the additional financing sources total \$6,879,264. These financing sources, added to the General Fund revenues, create a balanced budget.

As mentioned in previous budget reports, the outstanding items as detailed above have resulted in challenges in managing and monitoring the county's half billion-dollar budget. Without the close of FY 2019-20, staff are currently managing three budget cycles; the prior year, the current year and next year. In addition, delays in closing months in the current fiscal year, delays in posting pending journal transfers, expenditures and budget adjustments have created an environment where it is difficult to estimate year-end fund balance. Given that, staff estimate the FY 2021-22 year-end fund balance will be \$14.3 million, as detailed below.

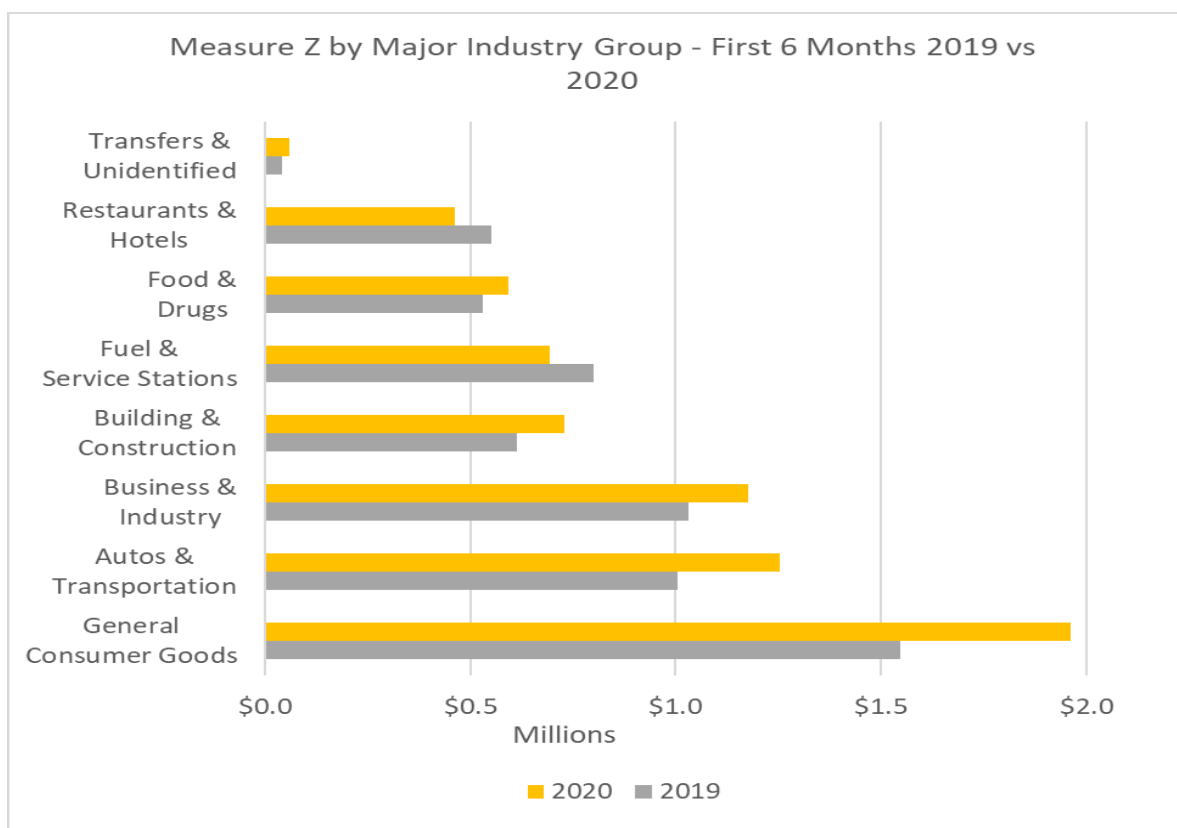
FY 2021-22 Fund Balance Table

Estimated FY 2021-22 Beginning Fund Balance	16,556,438
Revenues	148,629,614
Other Financing Sources/(Uses)	6,879,264
Expenditures	(155,508,878)
Use of Fund Balance	(2,245,569)
Estimated FY 2021-22 Year-End Fund Balance	14,310,869

Measure Z

The Fiscal Year 2020-21 budget was adopted with an estimated \$9.47 million in Measure Z revenue and expenditures, and in March staff increased that projection to \$11.078 million. Since March, Measure Z revenue has continued to substantially exceed even revised projections. Due to this positive news, staff recommends that your Board allocate additional funds to Measure Z requests that were not able to be funded in April.

Through April 2021, Measure Z has generated \$11.6 million, or \$1.9 million more than the same period in the prior year. The industry groups including general consumer goods and autos and transportation increased revenue by 27% and 25%, respectively, or \$662,707, over the first 6 months of the current year.



Prior to the onset of the pandemic, economists and governments across the country projected lower than normal revenues virtually across the board. Many things contributed to the increase in revenues, including increased online sales, lowered interest rates, federal stimulus and unemployment benefits, all of which were unknown at the time of budget adoption. While staff do not yet know the revenue that will be received through the rest of FY 2020-21, due to continued economic good news and after meeting with the county's sales tax consultant, Hinder de Llamas, staff can confidently increase projections for Measure Z, allowing your Board to allocate additional funding to public safety and other essential services projects. There are still two Measure Z payments left to receive in the current fiscal year and last year those two payments equaled \$2.001 million. Therefore, staff are increasing projections again for Measure Z revenue, this time by \$1.622 million to \$12,700,000, which means your Board can allocate these additional funds to Measure Z projects.

As FY 2020-21 has nearly ended, staff is recommending your Board apply this additional funding to applications received for FY 2021-22. As a reminder, the Citizens' Advisory Committee on Measure Z Funding in April submitted to your Board a ranked list of all applications received from the community. Some of the applications were reduced during the ranking process, including a Public Works application that was reduced from \$250,000 to \$125,000 in order to free up funds for other projects. Your Board already allocated \$12.5 million in projects in ongoing county staff costs and new applications. Attached is the Citizens' Advisory Committee Letter of Recommendations (Attachment IV). Also attached is a list of the remaining projects that have yet to be funded, as ranked by the committee, as well as the previously unfunded portions of applications (Attachment VI).

The recommendations above total an additional allocation of \$1,608,011, which would use all of the estimated FY 2021-22 revenue (except \$9,408 previously committed to fund balance in April) and additional revenue from FY 2020-21, leaving roughly \$23,427 in fund balance and available for allocation at a later date.

American Rescue Plan - Proposed Spending Plan

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

Co. of Humboldt	\$13.15 million
City of Eureka	\$2.5 million
City of Arcata	\$1.75 million
City of Fortuna	\$1.15 million
City of Rio Dell	\$313,201
City of Ferndale	\$127,242
City of Blue Lake	\$117,172
City of Trinidad	\$32,983

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

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

Within these broad expenditure categories, counties will have a great deal of flexibility to decide how best to use the funding to meet specific community needs. Local governments also have the option to transfer funds to a private nonprofit organization, a public benefit corporation, a special-purpose unity of state or local government, etc.

Your Board approved a spending plan for last year's federal CARES Act, which included funding for emergency response and aid to small businesses and non-profits. Staff are recommending an outline of a spending plan for FY 2021-22 ARPA funds that bears some resemblance, but that also takes advantage of the public sector lost revenue provision. The proposed spending plan is attached (Attachment VII), with details to be provided after budget adoption.

After the budget is adopted, staff will return to your Board with specifics on each of these broad expenditure categories for further consideration.

Voluntary Furlough

On May 20, 2020, your Board authorized the use of voluntary furlough in FY 2020-21 as a mechanism to addressing potential financial impacts and budget reductions associated with COVID-19. Departments have expressed a desire to continue offering voluntary furloughs as a mechanism to balancing status quo budgets in FY 2021-22. As such, staff recommend that your Board authorize department heads to approve voluntary unpaid furloughs for employees under their appointing authority for FY 2021-22, utilizing the attached form (Attachment II and Exhibit A).

Partial Service Retirement and Voluntary Separation Incentive Program (VSIP)

In addition to authorizing a voluntary furlough program, on May 20, 2020, your Board directed staff to explore Partial Service Retirement options with the California Public Employees' Retirement Systems (CalPERS), and a Voluntary Separation Incentive Program, in order to prepare for potential financial impacts and budgetary reductions as a response to COVID-19 impacts. As the pandemic has progressed, and staff have closely monitored the impacts of COVID-19, budget reductions have not become necessary. Accordingly, staff have ceased working on these programs.

Additional Funding Requests

Departments submitted over \$7.7 million in additional funding requests, as shown in Attachment V. The County Administrative Officer is recommending \$5.3 million, primarily in one-time requests, to be funded in FY 2021-22.

Recommendation 2: Inter-Fund Loans

An inter-fund loan is necessary for the Forest Resources and Recreation Fund as it is anticipated the costs for infrastructure and operations of the McKay Community Forest will exceed available revenues. The resolution (Attachment I) before your Board today authorizes the General Fund to loan \$225,000 to the Forest Resources and Recreation Fund against the expected payment from future timber harvests.

Recommendation 3: Transfer from Tax Loss Reserve Fund

A Teeter plan requires counties to have 1% of all property taxes and assessments levied (Revenue and Taxation code 4703(a)) placed in a tax loss reserve fund, or Teeter fund. For Humboldt County this means the county's tax loss reserve fund should be approximately \$2 million. Any dollar amount over the 1% requirement can be credited to the county General Fund. For FY 2020-21 your Board approved transferring \$1,158,000 to the General Fund from the Tax Loss Reserve fund. The county's tax loss reserve fund (3010) is estimated to have a balance of \$4.4 million at the end of the current fiscal year, with an additional \$1.5 million in revenue anticipated for FY 2021-22. An estimated \$1 to \$2 million can be transferred to the General Fund on an on-going basis depending on economic conditions. Based on the current estimated fund balance, it is recommended that \$1,368,526 be transferred to the General Fund for FY 2021-22.

The Proposed Budget has not been approved by the Auditor-Controller. The following rejection was received:

“We (Auditor-Controller) will not be approving this item in the form it has been presented. It is not appropriate to single out our (Auditor-Controller) department for what are systemic failings at the County level. Please rewrite the staff report in a way that does not single out the Auditor-Controller's office.”

FINANCIAL IMPACT:

Funding is as shown in the Humboldt County FY 2021-22 Proposed Budget document.

The total proposed county budget is \$505,629,559, proposed General Fund expenditures are \$155,508,878, including a Contingency Reserve of \$1.6 million.

STRATEGIC FRAMEWORK:

This action supports your Board’s Strategic Framework by providing for and maintaining infrastructure , managing resources to ensure sustainability of services.

OTHER AGENCY INVOLVEMENT:

All county departments and agencies, as well as several community organizations that receive county funding, are affected.

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion.

ATTACHMENTS:

- I. Resolution Authorizing Inter-Fund Loan for the Forest Resources and Recreation Fund
- II. Voluntary Furlough Agreement
- III. Public Hearing Notice
- IV. Citizens’ Advisory Committee Letter of Recommendations
- V. Additional Requests for General Fund Appropriation
- VI. Measure Z Unfunded Applications
- VII. ARPA Spending Plan
- VIII. Humboldt County FY 2021-22 Proposed Budget (copy on file with the Clerk of the Board and available online at <http://www.humboldt.gov.org/247/Budget>)

PREVIOUS ACTION/REFERRAL:

Board Order No.: N/A

Meeting of: 5/20/20, 11/23/20, 1/26/21, 2/23/21, 3/16/21

File No.: 20-626, 20-1533, 21-110, 21-333, 21-313