



AGENDA ITEM NO.

COUNTY OF HUMBOLDT

For the meeting of: February 11, 2014

Date: January 21, 2014

To: Board of Supervisors

From: Phillip Smith-Hanes, County Administrative Officer *PSH*

Subject: Mid-Year Budget Review for Fiscal Year (FY) 2013-14, Budget Outlook for FY 2014-15, and Recommendations for Budget Adjustments (4/5 Vote Required)

RECOMMENDATION(S):

That the Board of Supervisors:

1. Receive and file a review of the current (FY 2013-14) and projected (FY 2014-15) budget years;
2. Direct the County Administrative Office (CAO) to prepare the FY 2014-15 budget based on the following parameters:
 - a. That public safety departments receiving a Proposition 172 allocation absorb increased insurance costs of \$159,050 to help minimize growth in General Fund spending;
 - b. Set departmental allocations from the General Fund at current year adopted net budgets plus increased salary, benefit, internal service and insurance costs with the understanding that the rate of growth in discretionary General Fund spending needs to be reduced by \$2,000,000 to balance the FY 2014-15 budget;

Prepared by Amy S. Nilsen CAO Approval *Nilsen*

REVIEW: Auditor *AN* County Counsel _____ Human Resources *of* Other _____

TYPE OF ITEM:

Consent

Departmental

Public Hearing

Other _____

PREVIOUS ACTION/REFERRAL:

Board Order No. _____

Meeting of: _____

BOARD OF SUPERVISORS, COUNTY OF HUMBOLDT

Upon motion of Supervisor _____ Seconded by Supervisor _____

Ayes _____

Nays _____

Abstain _____

Absent _____

and carried by those members present, the Board hereby approves the recommended action contained in this Board report.

Dated: _____

By: _____

Kathy Hayes, Clerk of the Board

- c. Accept and consider supplemental requests that demonstrate a potential to generate future savings in the General Fund;
 - d. Consider funding positions that have been frozen due to the Voluntary Incentive Separation Program only if new and ongoing revenues are identified;
3. Authorize the Director of Human Resources to lower the County's self-insured retention limit from \$500,000 to \$100,000 for General Liability insurance;
 4. Authorize the use of fund balance in the Workers' Compensation fund (3523) in the amount of \$532,414 to offset charges to County departments;
 5. Refund \$601,438 based on excess fund balance in the Purchased Insurance Fund, to be distributed proportionately to the County funds' past contribution to this fund;
 6. Assign two Board members to review staff recommendations generated from the Debt Capacity Ad Hoc committee;
 7. Approve the list of budget adjustments shown on Attachment I, which includes a \$25,000 loan to the Code Enforcement trust fund, and authorize CAO staff to make any technical corrections necessary to effectuate the Board's direction; and
 8. Provide additional direction to staff as appropriate.

SOURCE OF FUNDING: All County Funds

DISCUSSION:

The CAO undertakes a mid-year financial review each year. The mid-year review serves the dual purpose of monitoring the County's financial status for the current fiscal year and providing staff, your Board and the public with a preview of the County's financial status going into the next budget year. This report has been divided into four key sections: a review of the financial condition in various County funds as of December 31, 2013; a brief overview of the factors which may affect that financial condition heading into next fiscal year; policy responses staff recommends that your Board consider in light of the County's current or projected financial condition; and a schedule for preparing the County budget for the fiscal year beginning July 1, 2014.

Section 1: Review of Mid-Year Financial Condition

This review covers only the largest County funds and smaller funds with negative balances. Other funds not mentioned appear to be on track, as of December 31, 2013, to end this fiscal year in a positive cash position substantially as budgeted.

1100 – General Fund

The fund containing the majority of County programs is the General Fund. This fund is the source of discretionary money derived from local revenue sources such as property tax and available to be spent on local needs. As stated in the First Quarter Budget Report for FY 2013-14, the General Fund ended FY 2013-14 with a positive fund balance of \$6.8 million.

The FY 2013-14 budget was adopted with a \$2.9 million planned spend-down of this balance. Contained in the First Quarter budget report were \$1.49 million in additional expenditures, partly offset by almost \$200,000 in revenue for the General Fund. These additional costs were primarily for the Liability Fund to reduce its negative fund balance. These additional expenditures increased the use of the General Fund's fund balance to finance expenditures in FY 2013-14 from \$2.9 million to \$4.2 million.

As identified by departmental mid-year reviews, General Fund net costs through June 30, 2013 are estimated to be \$3.1 million instead of \$4.2 million due to decreased Contingencies usage and increased revenue. This will potentially leave the General Fund with an estimated year-end fund balance of \$3.7 million, as shown in the chart to the right. This is due to the estimation that \$841,984 in Contingencies will be unspent and discretionary revenues (1100-888) such as timber yield tax and property taxes are coming in over budget.

FY 2012-13 Year End Fund Balance	6,860,958
FY 2013-14 Adopted Revenue	103,983,362
Property Tax Current - Secured	139,908
Redevelopment Dissolution	131,069
Timber Yield Tax	65,866
SB 813 Administration Reimbursement	(70,000)
Federal Payment in Lieu of Taxes	187,428
	<u>454,271</u>
FY 2013-14 Adopted Expenditures	(106,923,261)
Board approved expenditure adjustments	(1,498,382)
Unused Contingencies	841,984
Expenditures Under Budget	1,205
	<u>(655,193)</u>
Net Costs	(3,140,821)
Estimated FY 2013-14 Year End Fund Balance	<u>3,720,137</u>

However, despite this good news with revenues, the Probation Department (1100-235) anticipates utilizing trust fund revenue due to a decision by the federal Department of Health and Human Services-Administration for Families and Children (AFC) which stopped allowing California's Probation systems to claim for Title IV-E dollars. California is working to gain compliance with the AFC. This decision results in an estimated annual loss of \$350,000 for the County's Probation Department. The Probation Department is utilizing their trust fund to replace the loss of Title IV-E dollars.

There are minimal significant variances for General Fund expenditures as identified at mid-year, primarily due to expenditure increases being absorbed by departments within their current allocations, or those departments with savings offsetting the increased costs of other departments. Some of the more notable expenditure increases in the General Fund are below:

- The significant health insurance increase in the lowest cost plan is estimated to cost the General Fund \$456,729 in FY 2013-14, or \$1,390,956 to all County funds. County departments did not recognize this increase while analyzing their budgets during the mid-year review. However, money has been set aside in General Fund contingencies to cover this increased expense.
- Public Works-County Surveyor (1100-168) estimates that in order to cover costs for FY 2013-14, an additional \$33,539 is needed from the General Fund. The fee collections have been lower than anticipated. As in prior years, fees collected do not cover the full cost of direct and overhead

expenses. In addition, there are several “legacy” projects that were started in prior fiscal years and no longer collect fee income, but cost staff time.

- The District Attorney’s Office (1100-205) has experienced increased costs in expert witness not located in the area and Grand Jury deliberations at a cost of \$30,000. The District Attorney’s Office may be able to absorb these increased costs; if not, this may require a budget adjustment at Third Quarter.
- The Sheriff’s Department (1100-221) is experiencing increases in the use of extra-help and overtime costs at an estimated \$238,398.
- Prior to the Affordable Care Act (ACA), the County’s General Relief (GR) (1100-525) program clients received \$40 less in their assistance payment due to their participation in the County Medical Services Plan (CMSP). CMSP is no longer an option due to the ACA and the County must increase its assistance payments to GR clients by \$40 per month. The estimated annual cost to the General Fund is \$60,000. The General Relief budget anticipates absorbing this increase in the current fiscal year. The General Relief program is mandated by State Welfare and Institutions Code 17000.

Other unanticipated expenses outside of the General Fund include:

- The Humboldt County Correctional Facility (1100-243) will be replacing a broken water heater at a cost of \$38,000. This expense will be covered by the Deferred Maintenance Fund (3464).
- On January 7, 2014, your Board approved the Courthouse Chiller Replacement bid. The chiller units in the courthouse are at great risk of complete failure and need immediate replacement. This unanticipated expense is estimated to cost \$424,000. While this expense is covered by the Deferred Maintenance Fund (3464) this expense will also exhaust the fund, leaving no money for any future unanticipated expenses.
- Human Resources, Risk Management has paid an unanticipated settlement from the Liability fund (3524-354). This unanticipated expense of \$1.6 million is offset by the County’s liability insurance by \$1.1 million. However, the County did not budget for the use of its \$500,000 self-insured retention. As the Board may recall the Liability fund has been experiencing a negative fund balance due to litigation costs.

As part of the Mid-Year review process the CAO received a number of supplemental requests from General Fund departments. These supplemental requests are discussed in more detail in Budget Adjustment section on page 12.

Health & Human Services Funds

The Department of Health and Human Services (DHHS) administers six budgeted funds. DHHS began this fiscal year with an overall departmental fund balance of \$8.4 million.

1110 – Social Services Assistance Fund

This fund began the current fiscal year with a positive balance of \$505,916. Both revenues and expenditures are projected to come in as budgeted for FY 2013-14.

1160 – Social Services Administration Fund

This fund began the current fiscal year with a positive balance of \$7,280,101. Both revenues and expenditures are projected to come in as budgeted for FY 2013-14.

1170 – Mental Health Fund

The Mental Health Fund began this fiscal year with a negative balance of (\$930,870). The projection for FY 2013-14 is that revenues will exceed expenditures by \$35,376. The Mental

Health fund balance received an infusion of \$3,000,000 in July 2013 to reduce the long-standing negative fund balance that has beleaguered this fund.

1175 – Public Health Fund

The Public Health Fund began this fiscal year with a positive balance of \$1,931,177. Both revenues and expenditures are projected to come in as budgeted for FY 2013-14.

1180 – Alcohol & Other Drugs Fund

This fund ended FY 2011-12 with a negative fund balance of (\$599,498). Revenue and expenditures are on track for FY 2013-14. Therefore, the negative balance will likely remain the same.

1190 – Employment & Training Fund

This fund ended FY 2012-13 with a positive fund balance of \$289,696. Revenue and expenditures are on track for FY 2013-14.

1120 – Economic Development Fund

The Economic Development Fund ended FY 2012-13 with a negative fund balance of (\$173,128), due to delayed reimbursement of grant expenditures. Grants awarded to Economic Development reimburse for County expenses. Revenue and expenditures appear to be on track for FY 2013-14. CAO staff will continue to work with Economic Development and Auditor staff to bring the fund back to a more positive position.

1200 – Roads Fund

The Roads Fund ended FY 2012-13 with a fund balance of \$5.2 million. The adopted budget for the Roads fund utilizes \$1.2 million of available fund balance. Based on the mid-year review revenues are estimated to exceed expenditures by about \$1 million due to numerous roads projects. Therefore only approximately \$215,466 in fund balance is needed for FY 2013-14. This will leave the fund with a year end fund balance of \$5 million.

1500 – Library Fund

The Library ended FY 2012-13 with a fund balance of \$625,620. The Library anticipates that expenditures will exceed revenues by \$62,085 for the current fiscal year. This is better than the estimate of \$198,661 that was included in the adopted Library budget. However, the utilization of fund balance for operating expenses remains a concern and the department will need to address as part of the FY 2014-15 budget process.

3530 – Aviation Enterprise Fund

The Aviation Enterprise Fund ended FY 2012-13 with a negative fund balance of (\$314,039). Revenues in the current year are estimated to be lower than originally budgeted. Revenues are estimated to exceed expenditures by \$6,720 thereby decreasing the negative fund balance in FY 2013-14. However, this is significantly less than budgeted negative fund balance reduction of approximately \$88,980. Aviation will need to significantly reduce expenditures or increase revenues in FY 2014-15 to more effectively reduce this negative fund balance.

Risk Management Funds

The Risk Management Division of Human Resources administers eight separate funds for insurance and employee benefit purposes.

3520 - County Insurance Fund

The County Insurance Fund (more commonly referred to as the Risk Management Fund) is the operations budget unit for Risk Management. This fund ended FY 2012-13 with a negative fund balance of (\$113,288). Expenditures are on track for FY 2013-14. Mid-year estimates show that the fund will receive a positive influx of \$59,915 in the current fiscal year, which will help reduce the negative fund balance.

3522 - Employee Benefits Fund

The Employee Benefits Fund ended FY 2012-13 with a negative fund balance of (\$23,220). This fund covers expenses for vision coverage, life insurance, and the employee assistance program. Expenses should equal revenues for the current fiscal year.

3523 - Workers' Compensation

The Workers' Compensation Fund ended FY 2012-13 with a fund balance of \$982,584. There are no significant variances for FY 2013-14. The fund balance is estimated to be reduced by the budgeted amount of \$180,565.

3524 - Liability Insurance Fund

The Liability Insurance Fund ended FY 2012-13 with a negative fund balance of (\$904,695). During the First Quarter budget report the Board approved a transfer from the General Fund in the amount of \$1,000,000 to help reduce the negative fund balance. Since that time the Liability Fund continues to experience increased claims. Mid-year estimates show that expenditures will exceed revenues by \$531,183. Liability insurance charges for FY 2014-15 will need to be increased based on premium estimates.

3525 - Medical Plan Fund

The Medical Plan Fund ended FY 2012-13 with a negative fund balance of (\$285,510). Mid-year estimates show that the fund will receive a positive influx of \$295,427 in the current fiscal year, which will potentially eliminate the negative fund balance.

3526 - Dental Plan Fund

The Dental Plan Fund ended FY 2012-13 with a negative fund balance of (\$672,467). For FY 2012-13, revenues are anticipated to exceed expenditures by \$265,078, and thereby contribute positively to the fund balance. Dental charges in FY 2014-15 are not anticipated to increase as the negative fund balance is steadily being reduced.

3527 - Unemployment Insurance

The Unemployment Insurance Fund ended FY 2012-13 with a negative fund balance of (\$688,624). Revenues are anticipated to exceed expenditures by \$267,892 resulting in a reduction to the negative fund balance. Rates for FY 2014-15 are also not anticipated to increase as the negative fund balance is gradually reducing.

3528 - Purchased Insurance

The Purchased Insurance Fund ended FY 2012-13 with a fund balance of \$918,459. The fund balance is estimated to increase by \$42,480, which is an improvement over the adopted fund balance reduction amount of \$83,879.

Section 2: Budget Outlook for Fiscal Year 2014-15

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

The General Fund ended FY 2012-13 with a \$6.8 million fund balance. The adopted budget for FY 2013-14 required the use of fund balance in the amount of \$2.9 million to balance the General Fund's budget. Of this \$2.9 million, \$1.2 million is a structural deficit. This \$1.2 million structural deficit does not include \$1,000,000 for Contingencies or a \$250,000 contribution to the General Reserve.

In addition, at First Quarter your Board approved reducing the General Fund's fund balance by an additional \$1.3 million for Liability Fund expenses, Economic Development Set-Aside, Emergency Management Grant purchases, and ambulance service in eastern Humboldt County, leaving an estimated \$2.8 million available for financing FY 2014-15. Based on the mid-year review, the estimated fund balance going into FY 2014-15 is \$3.7 million. At the present time, the estimated shortfall for FY 2014-15 is \$3.6 million. Of this \$3.6 million: \$1.2 million is a prior structural deficit; \$1.8 million is for increased health insurance and retirement costs; \$281,437 for Worker's Compensation and liability insurance; \$1,000,000 for Contingencies; \$156,935 for state-mandated services; and \$791,902 is offset by increased revenue (as seen on the chart on page 10). A \$3.6 million shortfall leaves an estimated \$100,000 for FY 2015-16.

Given the continuing imbalance between revenues and expenditures in the General Fund, it is not fiscally responsible to budget leaving only an estimated \$100,000 for a future fiscal year. The First Quarter budget report broached Systems Review. Four areas of Systems Review were discussed: departmental integration, non-mandatory services, process improvements, and community partnership development. The exploration of process improvements has occurred organically with the High Performance Organization Coordinating Committee (HPOCC). The HPOCC is a cross-functional group of department heads and their staff who share an interest in continuous improvement across the County. The HPOCC has identified two initial areas of interest and/or concern: the internal accounting system upgrade and improvements to facilities. Both of these lend themselves well to process improvements.

Staff participating in the HPOCC have begun to assess the needs of the County when it comes to the County's internal accounting software, currently known as IFAS 7i. IFAS has historically been underutilized due to a lack of training and technical support. The County has also not taken full advantage of all the modules that were purchased due to limited technology infrastructure, and as a result staff has created more labor-intensive methods of getting the job done. With the upgrade from IFAS 7i to One Solution, the County has an opportunity to explore all the functionality the system has to offer and review processes ranging from budget development to payroll and personnel actions to capital improvement tracking. A demonstration of One Solution's capabilities has been scheduled. A survey will then be sent out to staff who participated in the One Solution demonstration to help identify what tools staff need to complete their jobs.

The second piece in process improvement that has gained traction is improvements to facilities. Currently the County has \$250 million in deferred maintenance across its County-owned infrastructure. In addition, many County-owned facilities are either not in ideal locations or not adjacent to other related services. An example of this would be Elections, which is located in the Clark Complex while the other half of their department is located in the Courthouse. Departments have expressed an interest in campus-style properties located within population centers across the County. Departments have also suggested that a

Debt Capacity Ad Hoc Committee be established to review the possibility of placing a bond on a future ballot to improve the access and functionality of County facilities.

Departmental integrations have taken shape in the form of departmental restructuring. Evaluating the efficacy of positions and their functions can be more feasible than integrating two departments (although potential for mergers will continue to be explored). Some departments have begun to look at positions and the respective duties to determine if they are suitable position classifications.

As these process improvements take more tangible forms, the County will need to explore the cost-benefit analysis of any and all investments. Purchasing additional modules for One Solution, bond research, or departmental restructuring will require a cash investment. However, by purchasing additional modules or investing in debt capacity research, questions will need to be asked: does this investment free up staff time, does transparency of County functions improve, does this investment make service delivery for residents faster.

Systems Review connects to your Board's Strategic Framework, Core Roles by providing for and maintaining infrastructure, as well as Priorities for New Initiatives by managing resources to ensure sustainability of services. The other Systems Review categories: non-mandatory services and community partnership development will be explored in the future as staff identify opportunities within current workload constraints.

The Proposed State Budget

In the Governor's proposed budget for 2014-15, the State's revenue picture continues to be positive, and the Governor has proposed some funding increases across many programs, but also demonstrates his ongoing commitment to paying down the "Wall of Debt," and has proposed a Constitutional Amendment to change the current requirements related to a rainy-day fund, such as limiting the maximum amount that could be withdrawn in the first year of a recession to half of the fund's balance.

The Governor's focus on the wall of debt includes eliminating the \$10 billion in deferrals to schools in FY 2014-15, retiring the last of the economic recovery bonds, and repaying loans from the Cap and Trade fund and funds borrowed from Transportation. The Governor's plan furthermore lays out plans to entirely eliminate the Wall of Debt by the end of FY 2017-18.

The State budget contains no money for Williamson Act subventions or Fish & Wildlife Payment In Lieu of Taxes, but it does allocate \$100 million of cap and trade funds to "sustainable communities." This funding may possibly be able to partially fund Williamson Act payments to counties.

Regarding Health & Human Services, much of the discussion is around implementation of the Affordable Care Act, but this appears to be fully consistent with the budget proposal from last year. Also in keeping with last year's commitments, the budget provides a 5 percent increase in CalWORKs payments. In addition, there is a 6.4 percent increase in funding for in-home supportive services, but also a new prohibition on overtime work by the care providers. There is also a three-year pilot project in six counties to provide subsidized child care for CalWORKs families.

There is also a three-year pilot available to nine County Assessors to provide State funds (with County match) to:

- Enroll newly constructed property and property ownership changes.
- Reassess property to reflect current market values.
- Enroll property modifications that change the property's taxable value.

- Respond to assessed valuation appeals.

The Governor's proposed budget at this time offers no funding reductions to the County. At the same time, the proposed budget also does not offer any increased revenue that is non-competitive in nature. Despite the State's improved financial outlook the County General Fund will not directly benefit.

The Local Economy

Humboldt County unemployment for November 2013 was 7.7 percent; this was a decrease of 1.8 percent from November 2012. The State's unemployment rate was 8.5 percent as of December 2013. The national unemployment rate decreased to 7.0 percent, the lowest rate since November 2008.

The Humboldt Economic Index (HEI) 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 home sales, retail sales, hospitality, electricity, employment, and manufacturing sectors of the local economy. The HEI for December 2013 states home sales, retail, and hospitality indices increased this month, while Employment remained unchanged, and Manufacturing decreased. Median home prices in Humboldt County fell from \$264,000 to \$234,000. Mortgage rates rose this month with the average 30-year fixed rate mortgage at 4.53 percent and the average 15-year fixed rate mortgage at 3.55 percent. The Index tracks three leading indicators. The results are mixed as the number of unemployment claims, help wanted, and building permits are all down.

According to the Beacon Economics Fall 2013 report California had recovered almost 830,000 of the nearly 1.37 million jobs lost during the recession. The residential real estate market has come back in California. The median price of a home sold in the state began 2013 with more than 20 percent growth on a year-over-year basis, though Humboldt County will not see growth this significant. Incomes, consumer spending, and exports of key commodities and products continue to do well in California. Hotel occupancy and other tourism measures remain strong in the Golden State.

The State of California has made significant progress in repairing the damage from the recession, evidenced by the 20 percent increase in home prices. However, Humboldt County lost ground with home prices. This means Humboldt County will not see the significant financial upswing that the rest of the State is anticipated to see. As property taxes are the main source of discretionary revenue in the General Fund the County will not see sufficient revenue increases in FY 2014-15.

Expenditure Increases

The California Public Employees Retirement System (CalPERS), which administers public pension benefits for County employees, indicates that FY 2014-15 contribution rates will increase by 5.95 percent, or from 21.527 percent of salary to 22.47 percent of salary, for Miscellaneous employees and 8.22 percent, from 26.88 percent of salary to 29.097 percent of salary, for Safety employees. This represents an increase of approximately \$654,892 for the General Fund.

As mentioned in the First Quarter Budget report on November 5, 2013, the County's contribution to employee health insurance increased from \$425.30 to \$550.20 for an employee only, or 29 percent. The 29 percent increase was offset slightly by the estimated 7.5 percent increase that was included in budgeted health insurance costs for FY 2013-14. Estimated numbers for FY 2014-15 health insurance anticipate an overall increase of 24.02 percent from the FY 2013-14 adopted budget (this includes the 29 percent increase previously mentioned), or \$1,157,641, for General Fund departments.

Worker's compensation, liability, and other insurances are estimated to increase in the General Fund by \$281,437, or \$896,776 for all funds for FY 2014-15. However, this increase in insurance charges has been reduced by the proposed use of \$532,414 in Workers' Compensation fund balance in FY 2014-15. The actual cost of these insurance programs is not being charged to departments. If the use of fund balance is not approved by your Board, insurance increases for these programs would total an estimated \$1.4 million.

Unemployment and dental rates will not increase in FY 2014-15. These insurance rates have satisfactorily been set to cover the actual cost of operations as well as debt recovery.

A variable that could impact the County budget going forward is employee bargaining unit negotiations. Employee bargaining unit contracts expire on June 30, 2014. The County has limited revenue growth and increased expenditure growth as discussed in the CAO Five-Year Financial Forecast on January 28, 2014.

Estimates show that General Fund departments will see increased expenditures by \$2 million for just benefit and insurance costs.

Revenue Changes for the General Fund

As discussed in the County Administrative Office's 2014 Five-Year Financial Forecast, property taxes are estimated to increase in FY 2014-15 by \$527,913. This limited revenue growth is due to an inflation factor of only 0.454 percent for property taxes. Sales tax is estimated to increase in FY 2014-15 by 5.4 percent, or \$263,989. In addition, Proposition 172, the half-cent sales tax dedicated to public safety, is also estimated to also increase by 5.4 percent for FY 2014-15, or \$518,253.

FY 2014-15 Estimated Revenue Changes for the General Fund	
Property Taxes	527,913
Sales Tax	<u>263,989</u>
	791,902
FY 2014-15 Estimated Expenditure Changes for the General Fund	
CalPERS	(654,892)
Health Insurance	(1,157,641)
Work Comp and other Insurance Charges	(281,437)
Contingencies	(1,000,000)
General Relief	(60,000)
Inmate Medical	(96,935)
Existing structural deficit (including 2013 raise)	<u>(1,200,000)</u>
	(4,450,905)
Estimated FY 2014-15 Shortfall	<u>(3,659,003)</u>

As mentioned on page 3, the Probation Department is currently not allowed to claim for Title IV-E dollars. This is an estimated annual loss of \$350,000. The Probation Department is utilizing their trust fund in FY 2013-14 to offset this loss. This may represent a problem to the General Fund in FY 2014-15 should Probation and California lobbying and compliance efforts not be successful in restoring claiming ability.

At this time, revenues will not cover expenditure increases (as shown in the chart above) in FY 2014-15. However, there has been growing interest in local tax initiatives that would increase revenue for the County. The local tax initiatives include a utility users tax on electricity, a "grow tax" on soil and soil-related amendments, and a public safety sales tax similar to Proposition 172. Currently, the County has

taken no formal action to place any of these initiatives on the ballot. Even if the County was able to place a tax initiative on the November 2014 ballot, and the initiative passed successfully, the initiative would not begin to generate revenue until sometime after January 1, 2015, which would not meaningfully affect the revenue picture for FY 2014-15.

Section 3: Policy Considerations

To assist in the development of a balanced FY 2014-15 budget, staff is recommending that the Board provide direction on the issues identified below:

Set Parameters to Guide FY 2014-15 Budget Preparation

As presented in the Five-Year Financial Forecast, economic recovery continues to be slow and has been hindered by significant expenditure increases in health insurance and retirement costs. These factors, plus a two percent pay raise to County employees in 2013, have led to a less-than-optimistic forecast for FY 2014-15. Based on this information the CAO is recommending that General Fund allocations be set at current year adopted net budgets plus increased benefit and insurance costs with the caveat that overall growth in discretionary General Fund spending be reduced by \$2 million from projected levels. The CAO is further recommending that County department heads work cooperatively to help identify how this will happen.

In addition, the CAO recommends that public safety departments that receive a Proposition 172 allocation absorb insurance costs increases for FY 2014-15. Proposition 172 is a half-cent sales tax that is dedicated to public safety purposes. Proposition 172 funding is estimated to increase by 5.4 percent or \$518,253 in FY 2014-15. Insurance cost increases for the departments that receive Proposition 172 revenue total approximately \$159,050. By absorbing \$159,050 of insurance costs this reduces the \$2 million reduction in cost increase to \$1,840,950.

Voluntary Separation Incentive Program (VSIP)

On March 15, 2011 the Board approved the VSIP. This program was a labor-sensitive approach to minimizing potential layoffs within the County due to budget reductions in FY 2011-12. The goal of the program was to incentivize employees to leave positions prior to June 30, 2011 and then the departments were required to leave these vacated positions vacant for a period of three years. This three-year period expires on June 30, 2014.

There are twelve (12) positions in the General Fund that are currently held vacant as a result of VSIP. The total salary and benefit cost of these twelve positions is \$663,240. The twelve positions are:

<u>Department</u>	<u>Position(s)</u>	<u>Total Cost</u>
113 Assessor	2.0 Assessment Technicians	\$85,542
205 District Attorney	2.0 Deputy District Attorneys I	\$149,447
	1.0 Office Assistant	\$45,854
221 Sheriff	2.0 SR Legal Office Assistants	\$103,913
235 Probation	1.0 Probation Officer	\$55,985
243 Correctional Facility	1.0 Correctional Officer	\$50,256
277 Planning	1.0 Code Compliance Officer	\$63,862
	1.0 Executive Secretary	\$62,352
	1.0 SR Office Assistant	<u>\$46,029</u>
		\$663,240

Due to estimated expenses exceeding revenues in FY 2014-15 the CAO is not recommending providing additional General Fund allocations to restore the VSIP positions for FY 2014-15.

Self-Insured Retention

On March 15, 2011 the Board approved increasing the self-insured retention (SIR) for Liability Insurance as part of overall budget cost-cutting measures. SIR is the dollar amount specified in an insurance policy that must be paid by the insured before the insurance policy will respond to a loss (similar to a deductible). Beginning in FY 2011-12 the self-insured retention was increased from \$150,000 to \$500,000. Due to continued litigation and significant losses, the County has been unable to maintain sufficient reserves to cover a \$500,000 SIR per loss in the Liability Fund (3524). These costs have not been adequately funded, and your Board took action on this during the First Quarter budget report by transferring \$1,000,000 to the Liability Fund. However, the fund continues to be in a negative position. If the SIR limit were decreased from \$500,000 to \$100,000, the estimated premium cost for FY 2014-15 would be \$933,000 versus the estimated premium of \$582,000 for an SIR of \$500,000. An analysis of the claims data over the past five years reveals that one-third of the claims in excess of \$100,000 are between \$100,000 and \$150,000. Therefore, staff recommends that your Board authorize lowering the SIR limits for general liability insurance to \$100,000.

Workers' Compensation

As mentioned on page 6, the Workers' Compensation Fund ended FY 2012-13 with a fund balance of \$982,584. These funds are available to reduce charges to departments in FY 2014-15. However, once this fund balance is reduced, insurance charges to departments will need to increase to reflect actual insurance costs. The estimated actual increase to Workers' Compensation insurance for FY 2014-15 is 20 percent, or \$785,147. Due to the significant fund balance in Workers' Compensation, the recommendation before your Board proposes using \$532,414 in fund balance to reduce estimated charges to departments for FY 2014-15.

Purchased Insurance

The Purchased Insurance fund ended FY 2012-13 with a fund balance of \$918,459. This fund balance is the result of insurance reimbursements for incurred losses over a number of years. As these funds are due to accumulated payments from a variety of County funds, the excess funds should be returned to these funds. There is minimal anticipated increase for FY 2014-15 in Purchased Insurance, which provides insurance coverage for property, crime bond, medical malpractice, Sheriff hull and the airport. Staff recommends redistributing \$601,438 of the fund balance, based on a fund's share of the property insurance, to funds as shown to the right. The estimated fund balance for the Purchased Insurance fund at the end of FY 2014-15 is \$317,021.

Approve Various Budget Adjustments

The CAO during the Mid-Year budget report frequently brings forward budget adjustments on behalf of departments in order to decrease the number of

General Fund	248,816
Economic Development	1,438
Social Services	55,142
Mental Health	26,290
Public Health	10,686
Alcohol & Other Drug	1,797
ETD Operations	7,663
Roads	28,317
Child Support	4,601
Library	41,552
First 5	1,078
Motor Pool	25,902
Risk Management	863
Communications	1,725
Aviation	121,734
Roads - Equipments	15,862
Information Technology	4,716
Purchasing	2,178
Law Library	1,078
	<hr/>
	601,438

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 I. These include:

- \$60,000 (Capital Projects 1100-170) – A number of Americans with Disabilities Act (ADA) non-compliance issues have been identified with the building at 1001 4th Street, which houses the Public Defender’s Office and the Child Abuse Services Team (CAST) program. The supplemental budget required to complete this project would be transferred from the Deferred Maintenance Trust (3464) to the Capital Projects budget (1100-170). The funds for this project were approved in Fiscal Year 2012-13, but due to delays with the project, the funding was transferred to the Deferred Maintenance Trust. This funding allows the County to hire a design team to survey and identify all accessibility issues with the location, provide phasing recommendations for constructing accessibility upgrades, and provide design, construction drawings, and construction administration services for the first phase of work. In addition, this funding will allow the first phase of construction, including: accessible site access and parking improvements, and accessible entrances to the building. This supplemental budget supports the Board’s Strategic Framework, Core Roles by providing for and maintaining infrastructure.
- \$38,000 (Capital Projects 1100-170) – The hot water heat exchanger that supplies potable hot water for the Correctional Facility kitchen and inmate housing demands in Phase 1 areas has failed and is providing inadequate hot water while putting un-due stress on the boiler and hydronic hot water system. The supplemental budget required to replace the failed heat exchanger would transfer funds from the Deferred Maintenance Trust (3464) to the Capital Project budget (1100-170) budget. This supplemental budget supports the Board’s Strategic Framework, Core Roles by providing for and maintaining infrastructure.
- \$400,000 (Recorder 1100-271) – The Recorder is currently finalizing a contract to restore the County’s vital record books. This project will be split-funded from the Vital & Health Statistics Trust (3666) in the amount of \$250,000 and the Recorder’s Modernization Trust (3662) in the amount of \$150,000. The Recorder will bring the final contract to your Board at a later date. This supplemental budget supports the Board’s Strategic Framework, Core Roles by providing community-appropriate levels of service.
- \$30,000 (Building Inspection Division 1100-262) – The Building Division has received two large commercial projects that require review for commercial code compliance standards. These reviews are contracted out to qualified professional engineers for review and approval. The estimated cost for the plan check for these two projects will exceed the current amount budgeted for Professional Services by \$30,000. All costs for these services are paid by the applicant. This supplemental budget supports the Board’s Strategic Framework, Core Roles by encouraging new local enterprise.
- \$70,208 (District Attorney 1100-205) – The District Attorney’s Office has received additional grant funds since the adoption of the budget. This supplemental budget includes the following grants, as well as a transfer from the Real Estate Fraud Prosecution Trust (3887), and will fund extra help and overtime expenses to enable the grants to be implemented:
 - Anti-Drug Abuse Enforcement \$3,050
 - Marijuana Suppression \$11,250
 - Justice Assistance Grant \$18,182
 - Southwest Boarder Prosecution Initiative Program \$3,390

- Real Estate Fraud Prosecution Trust \$34,336

This supplemental budget supports the Board's Strategic Framework, Core Roles by creating opportunities for improved health and safety.

- \$29,575 (Social Services 1160-511) – Social Services made some ADA upgrades on one of the County campuses. The job was originally planned and budgeted for FY 2012-13, but was not completed until after the start of FY 2013-14. This appropriation transfer will transfer a portion of the current funding to the appropriate fixed asset line. This transfer supports the Board's Strategic Framework, Priorities by providing community-appropriate levels of service.
- \$24,913 (Social Services 1160-511) - Social Services purchased a Medical RV and the estimated costs were lower than the actual purchase price. This appropriation transfer will transfer a portion of the current funding to the appropriate fixed asset line. This transfer supports the Board's Strategic Framework, Core Roles by inviting awareness of available services.
- \$40,693 (Veterans Services 1160-599) – The Veterans Services Office received a one-time increase for outreach and service connectivity for service personnel returning home. This supplemental budget supports the Board's Strategic Framework, Core Roles by providing community-appropriate levels of service.
- \$57,000 (Library 1500-621) –The Library budget is in a positive position at Mid-Year, rather than needing fund balance for operations as expected, due to higher property taxes and salary savings. Additional donation revenues were received from the Humboldt County Office of Education for collection material enhancement. Library staff would like to use the unanticipated revenues to make the following investments in the Library:
 - \$15,000- Replace 15 of the 93 computer workstations deemed replaceable by Information Technology;
 - \$15,000- Supplement the donation budget used to purchase new lendable books and audiovisual materials; and
 - \$27,000- Purchase a box truck to provide deliveries between the 11 Library branches in a more timely manner.

The supplemental budget required to purchase these items would recognize additional revenues received by the Library and transfer funds from the Library Fund (1500) to the Motor Pool budget (3500-351). This supplemental budget supports the Board's Strategic Framework, Priorities by providing community-appropriate levels of service.

- \$27,000 (Motor Pool 3500-350) – This supplemental budget is to purchase a box truck for the Library as stated above. This supplemental budget supports the Board's Strategic Framework, Priorities by providing community-appropriate levels of service.
- \$2,100,000 (Liability 3524-354) – The Human Resources, Risk Management Division's Liability Fund paid a settlement in the amount of \$1.6 million in FY 2012-13. After the County meets its SIR of \$500,000 the County will receive reimbursement from its insurance carrier for \$1.1 million and this revenue and expenditure need to be recognized. In addition, on November 5, 2011 your Board approved transferring \$1.1 million from the General Fund into the Liability Fund to reduce the negative fund balance. However, staff did not recognize the revenue increase in the Liability Fund at the time of the First Quarter report. This needs to be fixed. This supplemental budget supports the Board's Strategic Framework, Core Roles, and Priorities for New Initiatives by managing resources to ensure sustainability of services.

- \$25,000 (3440-80800) –The Code Enforcement fund currently has \$4,929 available to continue with Code Enforcement abatements. This is an insufficient amount to properly dispose of and clean up property. A General Fund loan is necessary to complete abatements. This loan, recommended to come from General Fund Contingencies, can be repaid as property owners pay the liens assessed to their property. The CAO, through the Referral Tracking process approved by your Board on June 4, 2013 will track repayment of this loan. This supplemental request supports the Board's Strategic Framework, Core Roles by enforcing laws and regulations to protect residents.

During the mid-year budget process, two departments made requests for supplemental funding. These requests are below. These requests are not being recommended at this time as these requests are more appropriate to be vetted through the FY 2014-15 budget process.

- A supplemental request in the amount of \$10,000 was requested from Public Works-Building Maintenance (1100-162) to allocate a part-time Facility Maintenance Mechanic to provide on-call mechanical assistance between 5pm and 8am for the correctional facility. This request is not being recommended at this time. This request is an ongoing funding request that should be analyzed among other departmental supplemental requests, an act that will occur during the FY 2014-15 budget process.
- A supplemental request in the amount of \$26,550 was requested from Public Works-Building Maintenance (1100-162) to allocate a 1.0 FTE Facility Maintenance Mechanic to provide a second FTE to serve the correctional facility. This request is not being recommended at this time. This request is an ongoing funding request that should be analyzed among other departmental supplemental requests, an act that will occur during the FY 2014-15 budget process.
- A supplemental request in the amount of \$45,522 was requested from Alternate Counsel (1100-253) to allocate a 1.0 FTE Investigator. This request is not being recommended at this time. This request is an ongoing funding request that should be analyzed among other departmental supplemental requests, an act that will occur during the FY 2014-15 budget process.

Section 4: Budget & Fee Update Calendar

The proposed calendar for County budget development (Attachment III) provides for final adoption of the budget on July 1, 2014. The intent is to allow for adoption of the budget at the beginning of the fiscal year.

The calendar for FY 2014-15 includes only one community outreach meeting, which is the same as last year. Due to technological advancements and the success of last year's budget meeting, these meetings will be held in each supervisorial district, at the same time, on Thursday, March 6th.

FINANCIAL IMPACT:

Acceptance of today's report has no direct financial impact. The recommended budget adjustment will increase the overall County budget by \$2,822,901. The recommended budget adjustments will reduce General Fund Contingencies by \$25,000.

OTHER AGENCY INVOLVEMENT:

None.

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Recommendation 2.b.

The Board could choose to reduce FY 2014-15 discretionary General Fund expenditures with an across the board 2 percent reduction. This is not recommended as some services are discretionary and others are mandated which limits the ability to sustain a 2 percent reduction.

Recommendation 2.c.

The Board could choose to not accept any supplemental requests. This is not recommended as supplemental requests that reduce costs in the future should be analyzed.

Recommendation 2.d.

For financial reasons the CAO is not recommending funding positions that have been frozen as a result of the Voluntary Incentive Separation Program (VSIP). Staff recognizes that there is a different demand across the departments that have VSIP positions. For example, the District Attorney's Office has seen increased and extreme caseloads, while building permits in the Planning Department have not returned to pre-recession levels. The Board could choose to fund all or a portion of the positions held frozen due to the VSIP.

Recommendation 3.

The Board could choose not to lower the self-insured retention for general liability insurance. This is not recommended as losses currently justify lowering the self-insured retention.

Recommendation 4.

The Board could choose not to utilize fund balance in the Workers' Compensation fund to offset charges to departments. This is not recommended as these funds should be credited to back to the departments that contributed to the flush fund balance.

Recommendation 5.

The Board could choose to reduce departmental charges, similar to the Workers' Compensation recommendation. This is not recommended as the Purchased Insurance fund is not seeing increased costs similar to Workers' Compensation, and therefore excess funds should be returned to the contributing funds.

Recommendation 6.

The Board could choose not to assign two Board members to review staff recommendations from the Debt Capacity Ad Hoc committee. This is not recommended as staff desire input from Board members on debt capacity findings.

Recommendation 7.

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. This is not recommended as these budget adjustments support the Board's Strategic Framework.

ATTACHMENTS:

- I. Recommended Budget Adjustments
- II. Budget & Fee Schedule Development Calendar for 2014-15

ATTACHMENT 1

RECOMMENDED BUDGET ADJUSTMENTS

Fund	Budget	Acct #	Budget Name	Account Name	Adjustment
Budget Adjustments					
Revenue					
1100	170	706131	Capital Projects	Trf from Deferred Maint Trust	\$ 60,000 ADA project at Public Defender's office
1100	170	706131	Capital Projects	Trf from Deferred Maint Trust	\$ 38,000 Water heater for Correctional Facility
1100	262	681201	Building Inspection Division	Other Funds	\$ 30,000 Reimbursement of Professional Services by applicants
1100	271	707800	Recorder	Trust Fund Transfer	\$ 400,000 Restoration of vital records
1100	205	515038	District Attorney	Anti-Drug Abuse Enforcement	\$ 3,050 One-time funding
1100	205	525095	District Attorney	Marijuana Suppression	\$ 11,250 One-time funding
1100	205	554000	District Attorney	JAG Federal Block Grant	\$ 18,182 One-time funding
1100	205	592310	District Attorney	Other Grants	\$ 3,390 One-time funding
1100	205	707800	District Attorney	Trust Fund Transfer- Real Estate Fraud	\$ 34,336 Funding to staff investigator to implement one time funding programs
				Total General Fund	\$ 598,208
1160	599	524000	Veterans Service Office	State Aid for Veterans Affairs	\$ 40,693 Additional State Aid for Veterans Affairs
				Total Social Services Fund	\$ 40,693
1500	621	101501	County Library	RDA Dissolution	\$ 21,000 One-time funding
1500	621	707254	County Library	Grants Other	\$ 15,000 Revenue from Humboldt County Office of Education
1500	621	705085	County Library	Donations to Library	\$ 21,000 Additional donations
				Total Library Fund	\$ 57,000
3500	351	682839	Motor Pool	Depreciation Reserve	\$ 27,000 One-time revenue from the Library fund
					\$ 27,000
3524	354	707080	Liability	General Fund Contribution	\$ 1,000,000 General Fund Contribution
3524	354	682130	Liability	Non County Agencies	\$ 1,100,000
				Total Liability Fund	\$ 2,100,000
				Total Revenue	\$ 2,822,901
Expenditures					
1100	170	8998	Capital Projects	Building Modification	\$ 60,000 ADA project at Public Defender's office
1100	170	8913	Capital Projects	Water Heater	\$ 38,000 Water heater for Correctional Facility
1100	199	3257	Contributions to Other Funds	Contributions Other Funds	\$ 25,000 Loan to Code Enforcement Trust
1100	262	2118	Building Inspection Division	Professional & Special Services	\$ 30,000 Plan checks for commercial code compliance standards
1100	271	2118	Recorder	Professional & Special Services	\$ 400,000 Restoration of Vital Records
1100	205	1400	District Attorney	Extra Help	\$ 50,518 Staffing to implement grant
1100	205	1460	District Attorney	Overtime	\$ 19,690 Staffing to implement grant
1100	999	2010	Contingencies	Contingencies Co General Fund	\$ (25,000) Loan to the Code Enforcement Trust
				Total General Fund	\$ 598,208

ATTACHMENT 1

RECOMMENDED BUDGET ADJUSTMENTS

Fund	Budget	Acct #	Budget Name	Account Name	Adjustment
1160	599	1400	Veterans Service Office	Extra Help	\$ 15,000.00 Additional State Aid for Veterans Affairs
1160	599	2117	Veterans Service Office	Office Supplies	\$ 2,000.00 Additional State Aid for Veterans Affairs
1160	599	2125	Veterans Service Office	Transportation & Travel	\$ 2,000.00 Additional State Aid for Veterans Affairs
1160	599	2317	Veterans Service Office	Office Expense - Equipment	\$ 10,000.00 Additional State Aid for Veterans Affairs
1160	599	2617	Veterans Service Office	Professional Services-Other	\$ 11,693.00 Additional State Aid for Veterans Affairs
				Total Social Services Fund	\$ 40,693.00
1500	621	2317	County Library	Office Expense- Equipment	\$ 15,000 Replacement computers
1500	621	2217	County Library	Books & Periodicals	\$ 15,000 Purchase library books for collection development
1500	621	3257	County Library	Contributions to Other Funds	\$ 27,000 For the Motor Pool fund to purchase a box truck with lift gate for deliveries
				Total Library Fund	\$ 57,000
3500	351	8771	Motor Pool Reserves	Truck	\$ 27,000 To purchase a truck for the Library
				Total Motor Pool Fund	\$ 27,000
3524	354	6100	Liability	Claim Payments	\$ 2,100,000 Liability Claim payments
				Total Liability Fund	\$ 2,100,000
				Total Expenditures	\$ 2,822,901
Appropriation Transfers					
From:					
1160	511	8998	Social Services	Building Modification	\$ 54,488 Vehicle-Medical RV & ADA lines
				Total Social Services Fund	\$ 54,488
To:					
1160	511	8636	Social Services	Vehicle-Medical-RV	\$ 24,913 Purchase of Medical RV
1160	511	8842	Social Services	ADA	\$ 29,575 ADA upgrades
				Total Social Services Fund	\$ 54,488

BUDGET & FEE SCHEDULE DEVELOPMENT CALENDAR FOR 2014-15

Tuesday, February 11	Present 2013-14 Mid-Year Budget Report to Board of Supervisors
Monday, February 24	Board Reviews Strategic Framework
Monday, March 3	Budget Workshop: County Administrative Office Presents Budget Instructions to County Departments
Thursday, March 6	Technologically Advanced Community Budget Meeting
Monday, April 7	Budget Requests Completed by County Departments and Due to County Administrative Office
Tuesday, May 6	Present 2013-14 Third Quarter Budget Report to Board of Supervisors
Tuesday, June 3	County Administrative Office Presents Proposed County Budget to Board of Supervisors
Monday, June 16	Public Hearings on Proposed County Budget; 1:30 & 6:00 p.m.: Clerk of the Board required to publish notice
Monday, June 23	Fee Workshop: County Administrative Office Presents Fee Instructions to County Departments
Tuesday, July 1	FY 2013-14 County Budget Adopted by Board of Supervisors
Monday, August 4	Fee Update Requests Completed by County Departments and Due to County Administrative Office
Tuesday, September 9	FY 2013-14 County Fee Schedule Public Hearing Noticed and Fees Publicly Available & Public Hearing for Special District Budgets
Tuesday, October 7	FY 2013-14 County Fee Schedule Adopted by Board of Supervisors
Tuesday, November 4	Present 2014-15 First Quarter Report to Board of Supervisors
Monday, November 10	Effective Date for Updated County Fees (except Planning & Building)
Monday, December 8	Effective Date for Updated Planning & Building Fees