

FY 2020-21 ADOPTED BUDGET



**FINANCIAL
INFO**



COUNTY GOVERNMENT STRUCTURE

Introduction

The annual budget book serves as the County of Humboldt's primary policy and budget document. It also communicates the Board of Supervisors' strategic framework and how the Board's priorities are met through county programs, services and activities that are aligned at the department level.

The annual budget provides a general overview along with line-item detail on the county's operations and service to the community.

Mission Statement

The County of Humboldt, through the dedication and excellence of its employees, is committed to meeting the needs and addressing the concerns of the community and enhancing the quality of life.

Local Governance

The County of Humboldt is a general law county established in 1853 by the state legislature and is a political subdivision, or unit, of the state. Pursuant to the California Government Code, the Board of Supervisors, which serves as the legislative and executive body of county government and many special districts, is comprised of five full-time members elected by their respective districts. As the governing body of Humboldt County, the Board of Supervisors enacts legislation and determines policies for county departments and various special districts, adopts the annual budget, and fixes salaries. The Board also hears appeals of Planning Commission decisions and considers General Plan amendments.

The county is responsible for providing municipal programs and services in the unincorporated areas of the county, and its powers are limited to those granted by the state. The county budget includes many programs in the areas of health, welfare and law enforcement that are mandated, regulated and primarily funded by the state and federal governments. The Board of Supervisors has limited authority over the policy and administration of these programs.

The county budget also includes funding to provide local services not affected by state laws, such as libraries, land-use planning, county road construction and maintenance and police protection.

There are seven incorporated cities within Humboldt County that provide services to their residents, including the county seat of Eureka. The majority of general government services along with the Sheriff's Office and correctional facility are provided at the Humboldt County Courthouse, 825 Fifth Street in Eureka.

Board of Supervisors Meetings

The Board generally meets every Tuesday in the Board Chambers at 825 Fifth Street in Eureka to discuss and vote on policy items. The Board's meeting schedule and agendas are posted on the Board of Supervisors' website at humboldtgov.org. Video broadcasts of meetings (live and archived) are also available online.

Organizational Structure

The county organization within the budget document is grouped by service area that represent



COUNTY GOVERNMENT STRUCTURE

Supervisory District Map



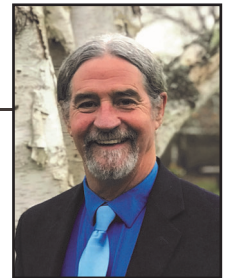
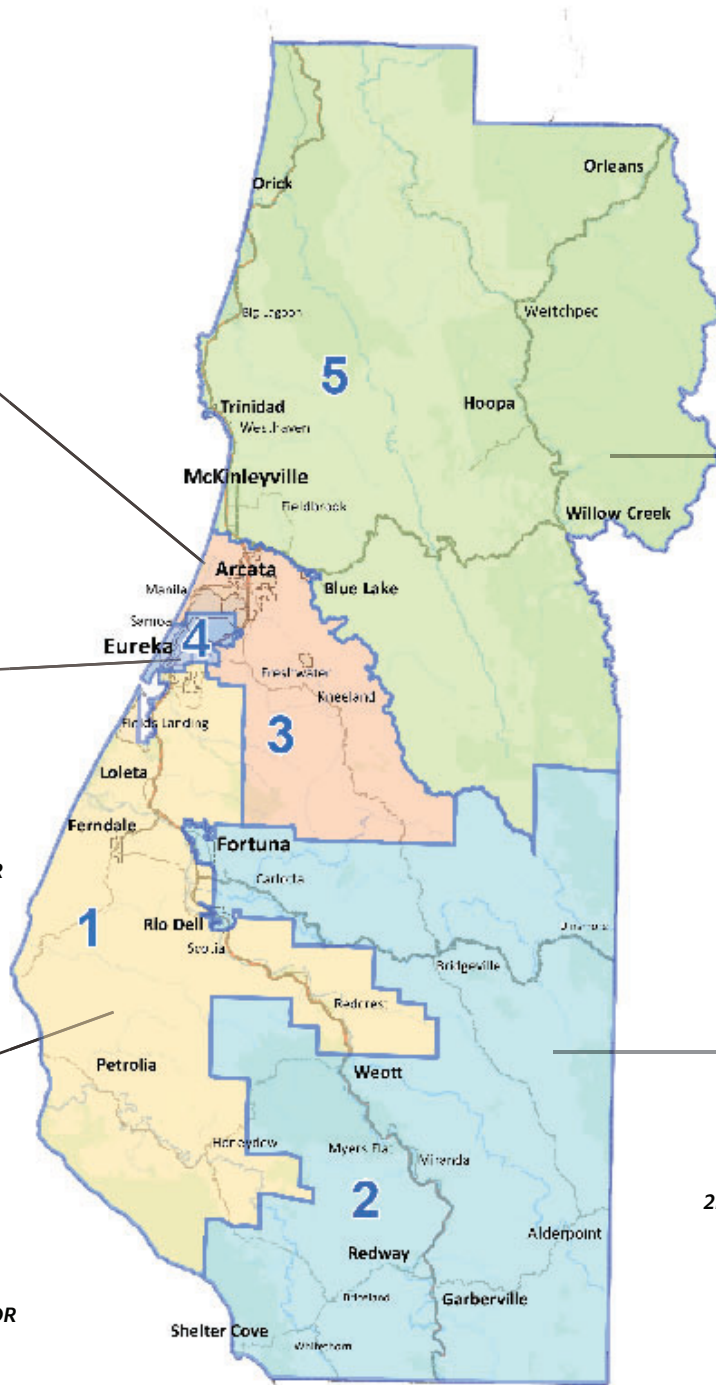
MIKE WILSON
3RD DISTRICT SUPERVISOR



VIRGINIA BASS
4TH DISTRICT SUPERVISOR



REX BOHN
1ST DISTRICT SUPERVISOR
CHAIR



STEVE MADRONE
5TH DISTRICT SUPERVISOR



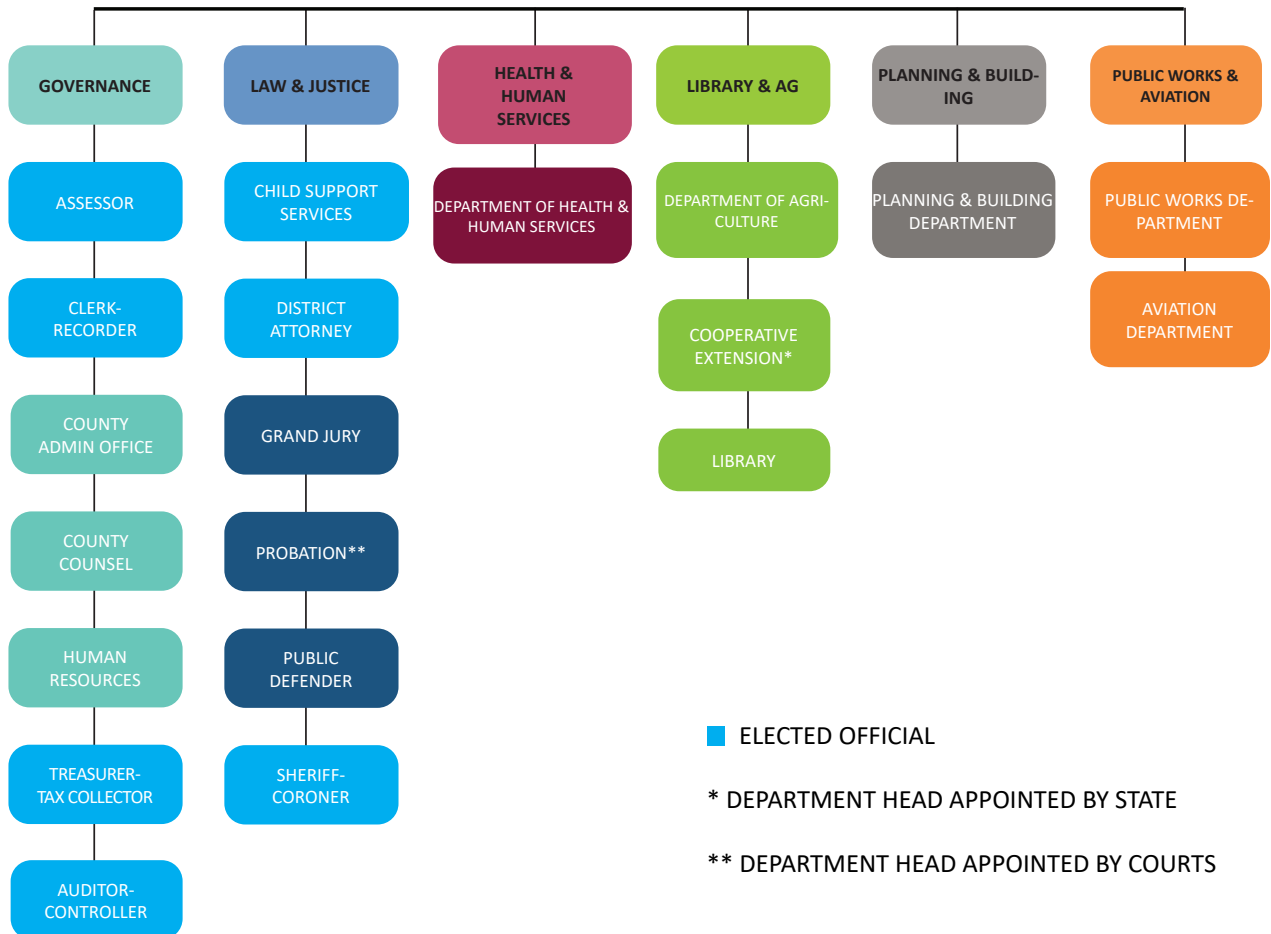
ESTELLE FENNELL
2ND DISTRICT SUPERVISOR
VICE CHAIR

COUNTY GOVERNMENT STRUCTURE

general categories of service to the community of Humboldt County:

- Governance
- Law & Justice
- Health & Human Services
- Library and Agriculture
- Planning & Building
- Public Works & Aviation

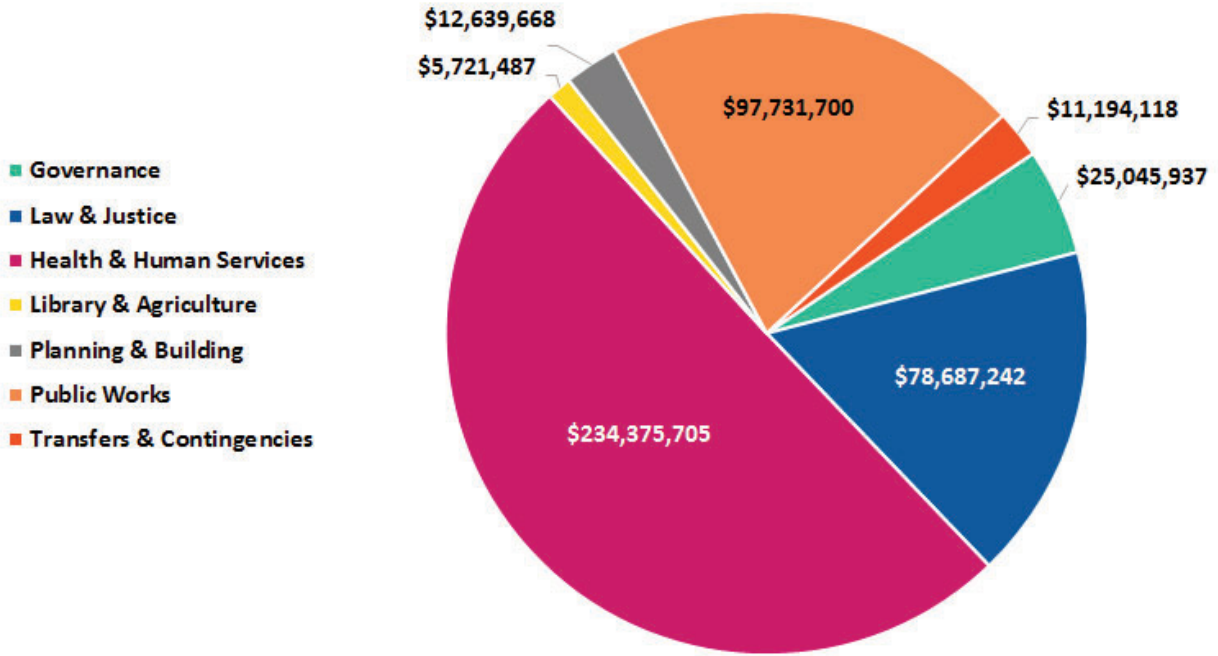
These service areas include of 20 separate departments. Additional information on the service areas of the organization can be found in the specific service area sections of this document. Six departments are directed by officials elected by residents to serve a four-year term: Assessor, Auditor-Controller, Clerk-Recorder, District Attorney, Sheriff-Coroner, and Treasurer-Tax Collector. The remaining officials/department heads are appointed by either the Board of Supervisors or other agencies as outlined in state law.





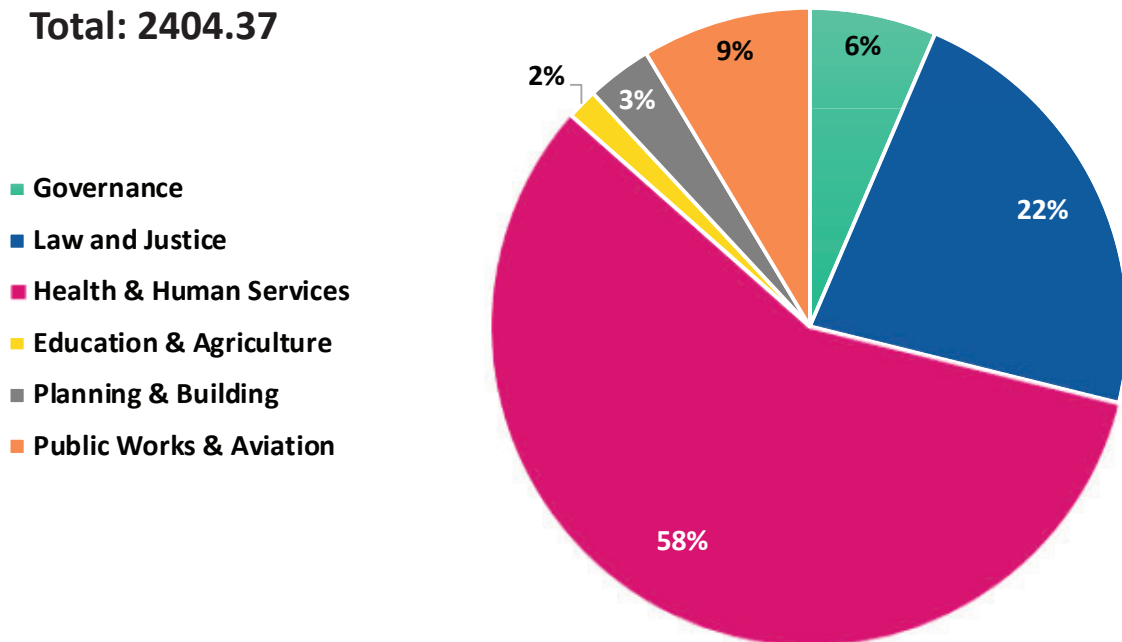
COUNTY GOVERNMENT STRUCTURE

FY 2020-21 Expenditures by Functional Area



FY 2020-21 Full-Time Equivalent Funded Employees by Functional Area

Total: 2404.37



COUNTY GOVERNMENT STRUCTURE

Governance Departments

Assessor: Provides assessment and recording of real property in the county and annually prepares the tax roll and delivers it to the Auditor-Controller.

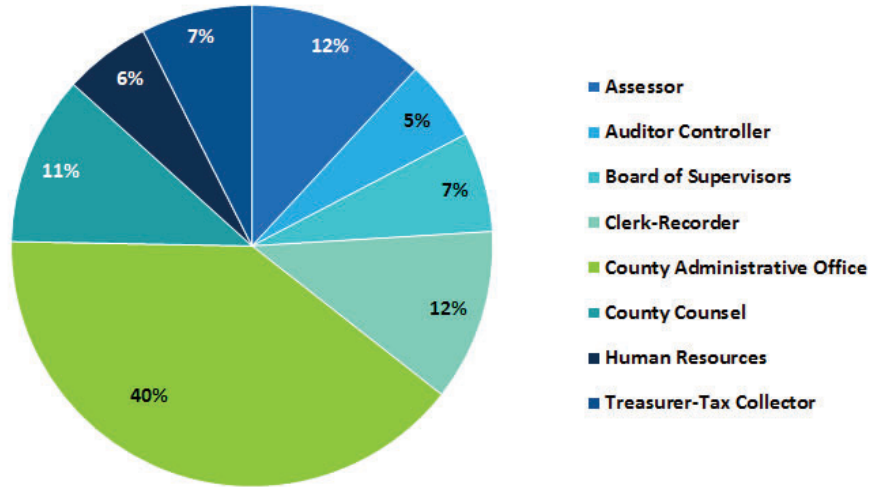
Auditor-Controller: Exercises general supervision over the accounting of all organizations and administers the county's major financial, payroll, and property tax apportionment systems; prescribes and exercises general supervision over the accounting forms and the method of keeping the accounts of all offices and institutions under the control of the Board of Supervisors and for those entities who maintain their funds in the County Treasury, including special districts and school districts.

Board of Supervisors: Responsible for exercising its legislative and quasi-judicial authority, within budgetary constraints, to provide for the health, welfare, and safety of the residents of the County of Humboldt.

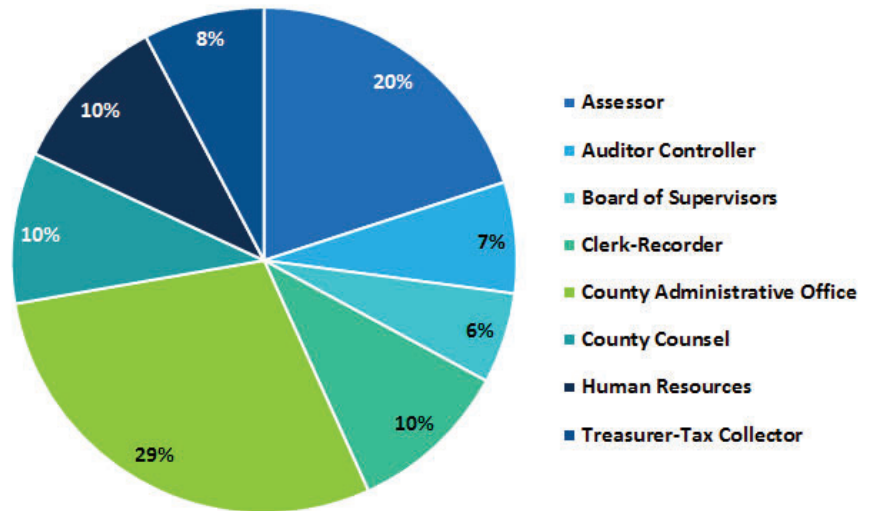
Clerk-Recorder: Records or files various authorized documents and maps, collects transfer tax and other fees, and registers all births, deaths, and public marriages occurring within Humboldt County. Once recorded or filed, the documents and certificates are made available for examination within the office for interested parties.

County Administrative Office: Provides a supportive framework for Board policies and decisions. This department oversees the Americans with Disabilities Act Compliance, Information Technology, Economic Development, Purchasing, and Communications.

Expenditures \$25,045,937



Full-Time Equivalent Employees - 154





COUNTY GOVERNMENT STRUCTURE

County Council: Required to provide legal advice to all county officers and departments, boards and commissions, municipal advisory commissions, Grand Jury and special districts governed by the Board of Supervisors.

Human Resources: Provides guidance and assistance to the public, the County Administrative Office, the Board of Supervisors, county employees, and all county departments related to Human Resources management, talent acquisition, employee development, and retention of its workforce. This department oversees Human Resources and Risk Management.

Treasurer-Tax Collector: Responsible for the collection, custody, investment, and disbursements of the funds of the county, school districts, special districts, and trust funds; maintains oversight of revenue recovery operations for Court Collections-AB233 (Public Protection Function) and collections for other county departments.

Law & Justice Departments

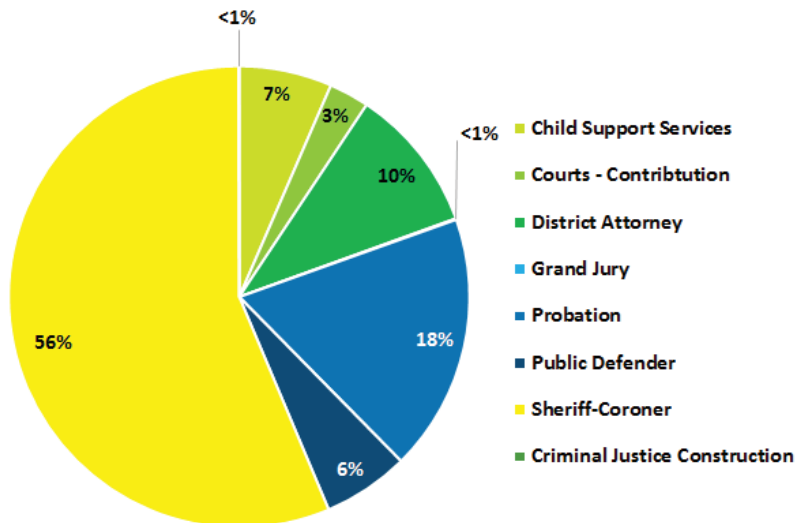
Child Support Services:

The North Coast Regional Department of Child Support Services provides professional services to locate parents, establish paternity, establish and enforce sustainable child support orders for financial and medical support, and remove barriers to regular and consistent support payments.

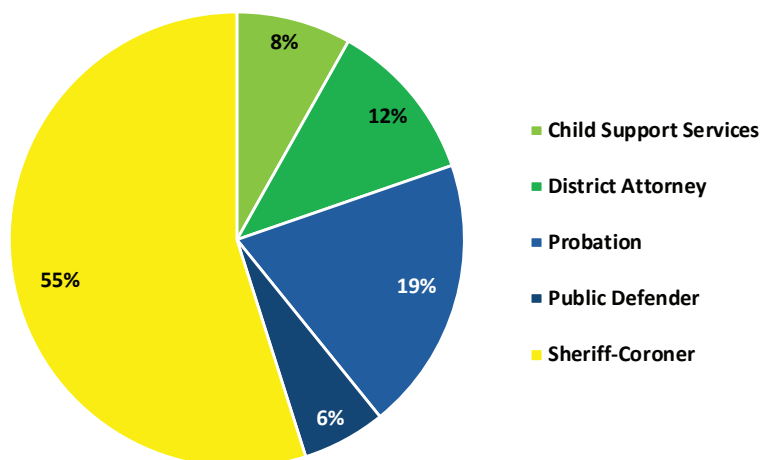
District Attorney: The public prosecutor of the county whose authority extends throughout the county, including the incorporated cities, and state and federal lands. The department also oversees Victim Witness and Child Abuse Services Team.

Probation: The Probation Department is an integral part of the criminal justice system and its primary function is to promote public safety by reducing criminal behavior and its impact upon the community. The department oversees the

Expenditures \$78,687,242



Full-Time Equivalent Employees - 539



COUNTY GOVERNMENT STRUCTURE

Regional Facility and Juvenile Hall.

Public Defender: The Public Defender is responsible for representing any person financially unable to employ counsel and who is charged with the commission of any contempt or criminal offense within the jurisdiction of the Superior Court of Humboldt County.

Sheriff-Coroner: The offices of Sheriff and Coroner are combined. The Sheriff is the Chief Law Enforcement Officer of the county, whose authority extends throughout the county. The department oversees Animal Control, Coroner-Public Administrator, Custody Services, Operations, and Emergency Services.

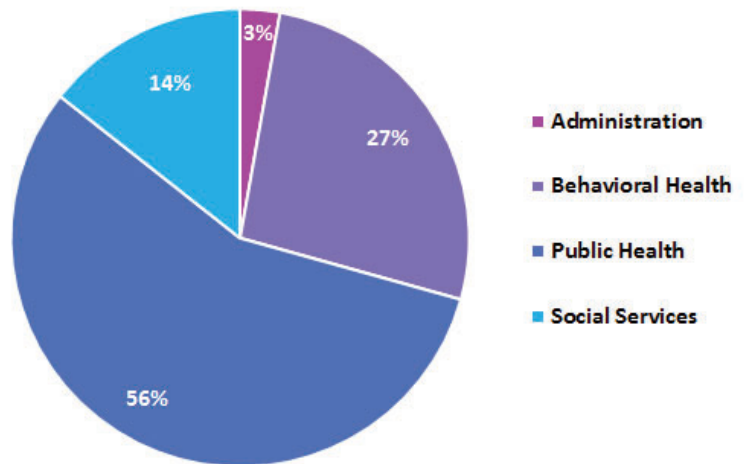
Health & Human Services

The Department of Health & Human Services serves the community through coordinated, multi-disciplinary services. The department administers and oversees through the Administration budget unit three core functions, which include Public Health, Social Services and Behavioral Health.

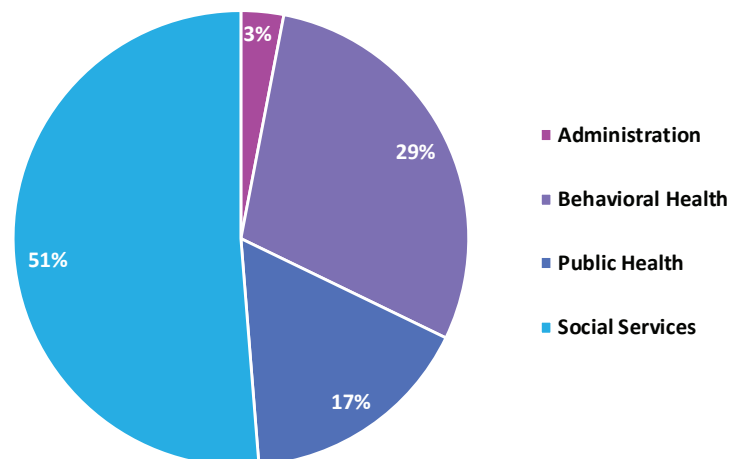
Public Health: Public Health works closely with the public to promote and safeguard the health and wellness of the people of the County of Humboldt. Public Health oversees the divisions of Administration; Environmental Health; Healthy Communities; Maternal, Child & Adolescent Health; Public Health Nursing; and the Public Health Clinic.

Social Services: Social Services programs focus on the safety of vulnerable children, youth and adults, and assist families and individuals in their journey toward self-sufficiency. State and federal laws that differentiate client populations according to factors such as age, condition, types of services, and various risk factors mandate the majority of the services. Social Services is comprised of the key service areas of the Employment Training Division, Social Services Assistance Division and the Social Services Division.

Expenditures \$234,375,705



Full Time Equivalent Employees - 1386.83





COUNTY GOVERNMENT STRUCTURE

Behavioral Health: Behavioral Health programs and services are committed to the principles of recovery, wellness, and discovery. Behavioral Health includes two primary programs, Alcohol and Other Drugs Division, which assists individuals who have substance use disorders to create and maintain a healthy and balanced lifestyle free of alcohol and other drug abuse, and Behavioral Health Division that serves the people of Humboldt County whose lives are affected by serious and chronic mental illness.

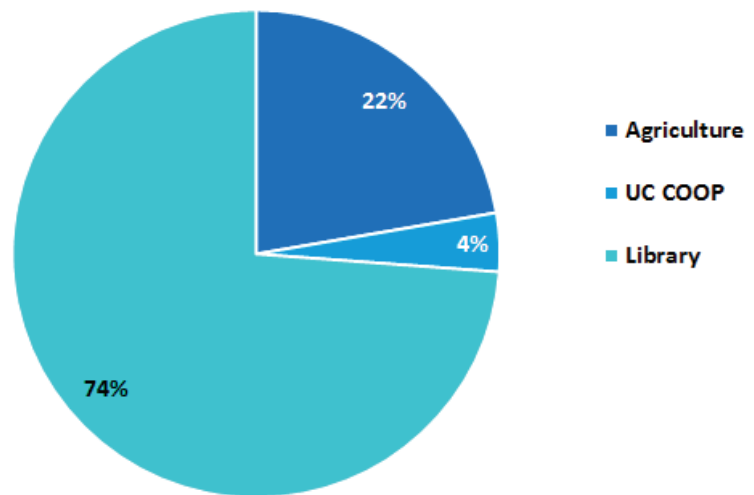
Library & Agriculture

Agriculture: The Agricultural Commissioner provides environmental protection through agricultural pest exclusion, detection, pesticide use enforcement, and support of US Department of Agriculture animal damage control program; protects consumers by inspecting/testing all commercial weighing devices and enforcing package label laws.

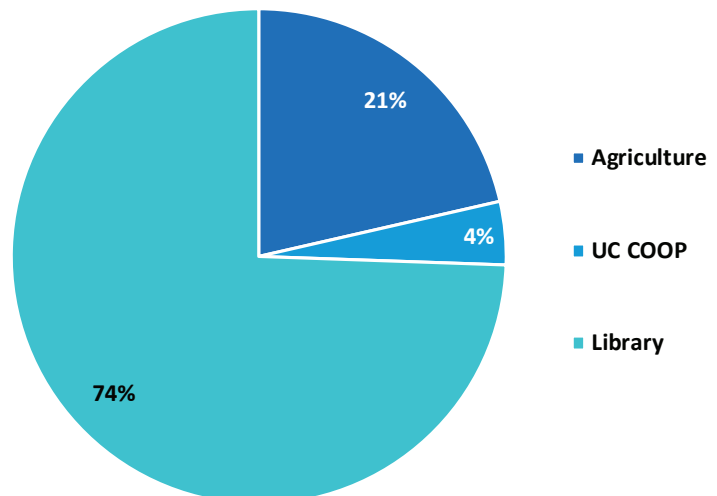
Library: The Humboldt County Library System is a vital community resource that provides service to all county residents and visitors through the Main Library in Eureka, 10 branch libraries, and the Bookmobile. Everyone is welcome to visit and use the Humboldt County Library.

University of California Cooperative Extension (UCCE): The UCCE has worked in partnership with the County of Humboldt and served the local community since it was founded in 1913. The UCCE in Humboldt County is part of a statewide system that serves as the primary public outreach and off-campus delivery vehicle for the UC. This system is designed to provide UC research-based information to landowners, public agencies, private industries, various organizations and the general public.

Expenditures \$5,721,487



Full Time Equivalent Employees - 37.34

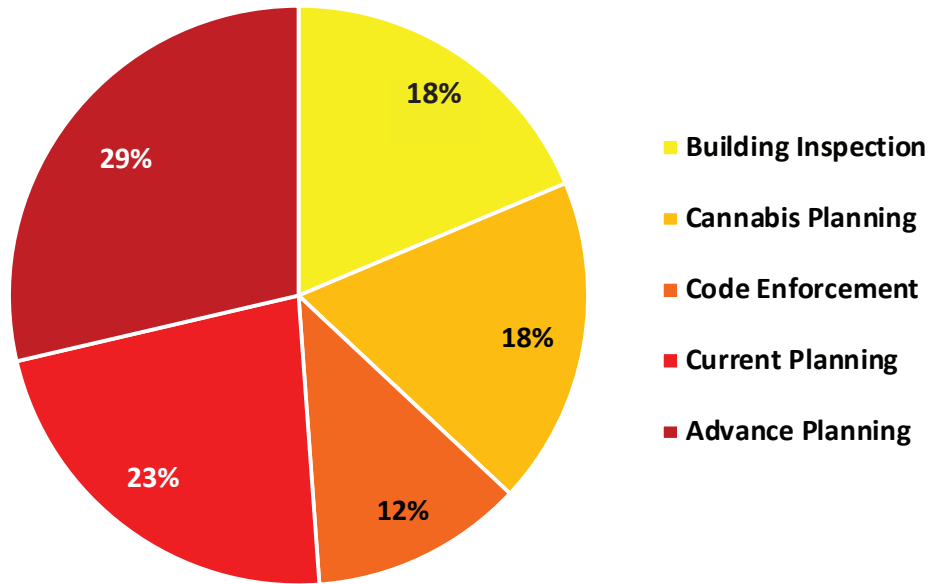


COUNTY GOVERNMENT STRUCTURE

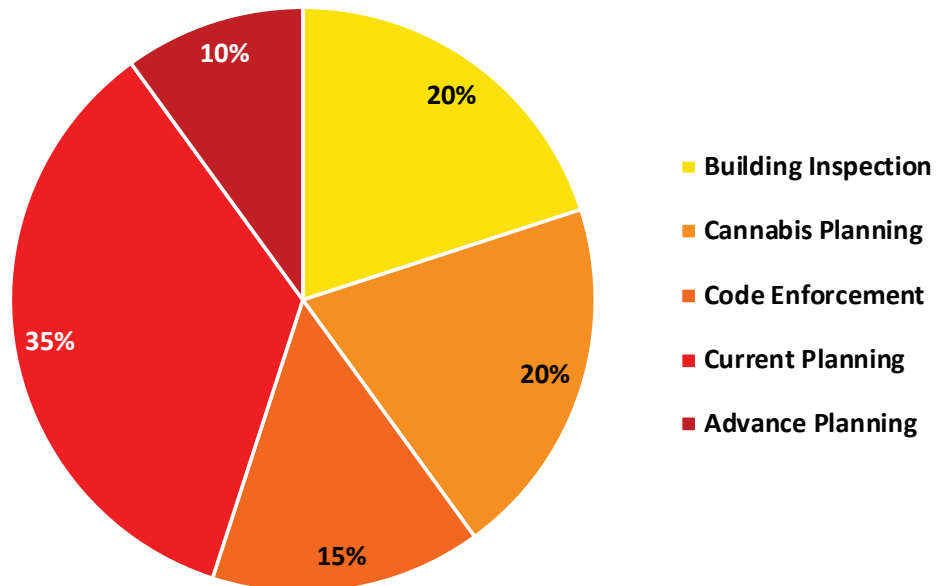
Planning & Building

The Humboldt County Planning and Building Department is responsible for protecting public health, safety, and welfare of the local community through building permit review and inspections consistent with California model codes as well as planning and development review and approval consistent with the county's General Plan. The department oversees Advance Planning, Building Inspections, Cannabis Planning, Code Enforcement and Current Planning.

Expenditures
\$12,639,668



Full Time Equivalent
Employees - 80





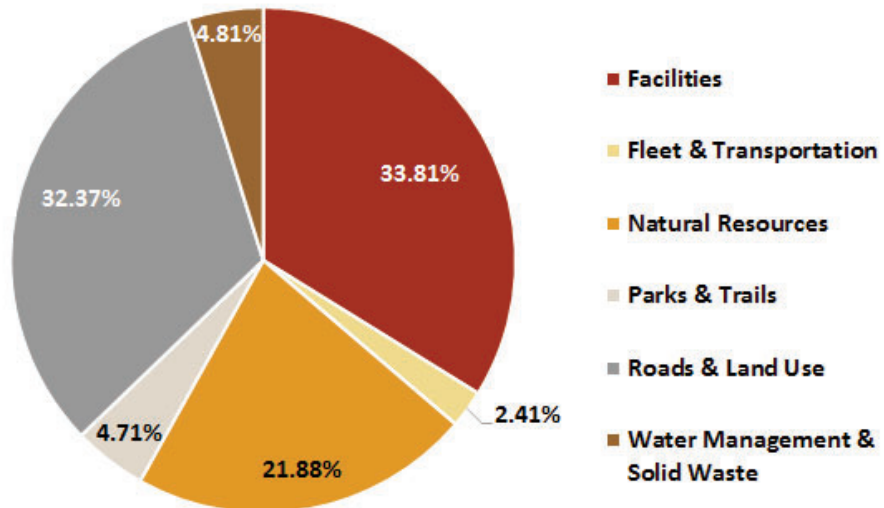
COUNTY GOVERNMENT STRUCTURE

Public Works & Aviation

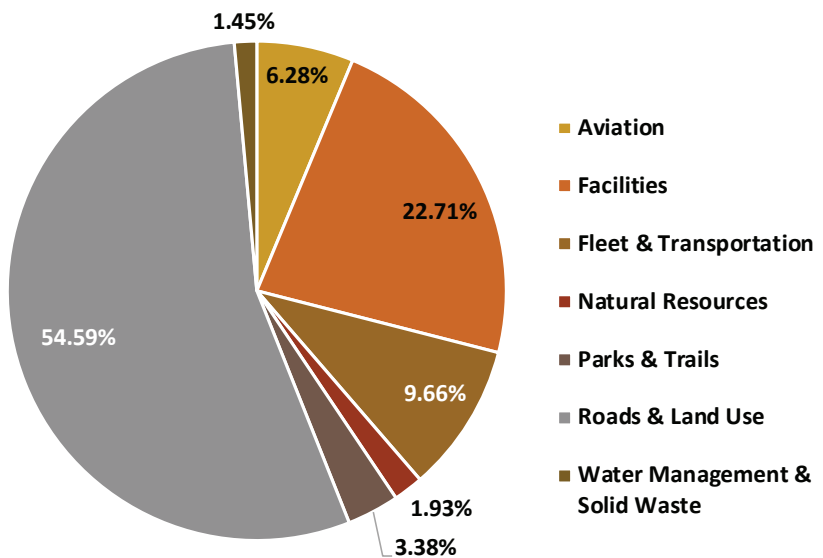
Public Works: The responsibilities of the Public Works Department include preparing plans and specifications, inspecting construction projects, maintaining county roads and bridges, managing county properties and right-of-way, preparing environmental documents, obtaining regulatory permits, administering solid waste franchises and facilities, and maintaining three county levee systems, county facilities, ten county parks, county trail systems and community forests, six county airport systems, and fleet services.

Aviation: The Aviation Division is responsible for managing six county airports in a manner that ensures aeronautical safety, safety of the traveling public, continued air service, and complies with federal, state and/or local aviation rules, regulations and advisories.

Expenditures
\$93,731,700



Full Time Equivalent Employees - 207

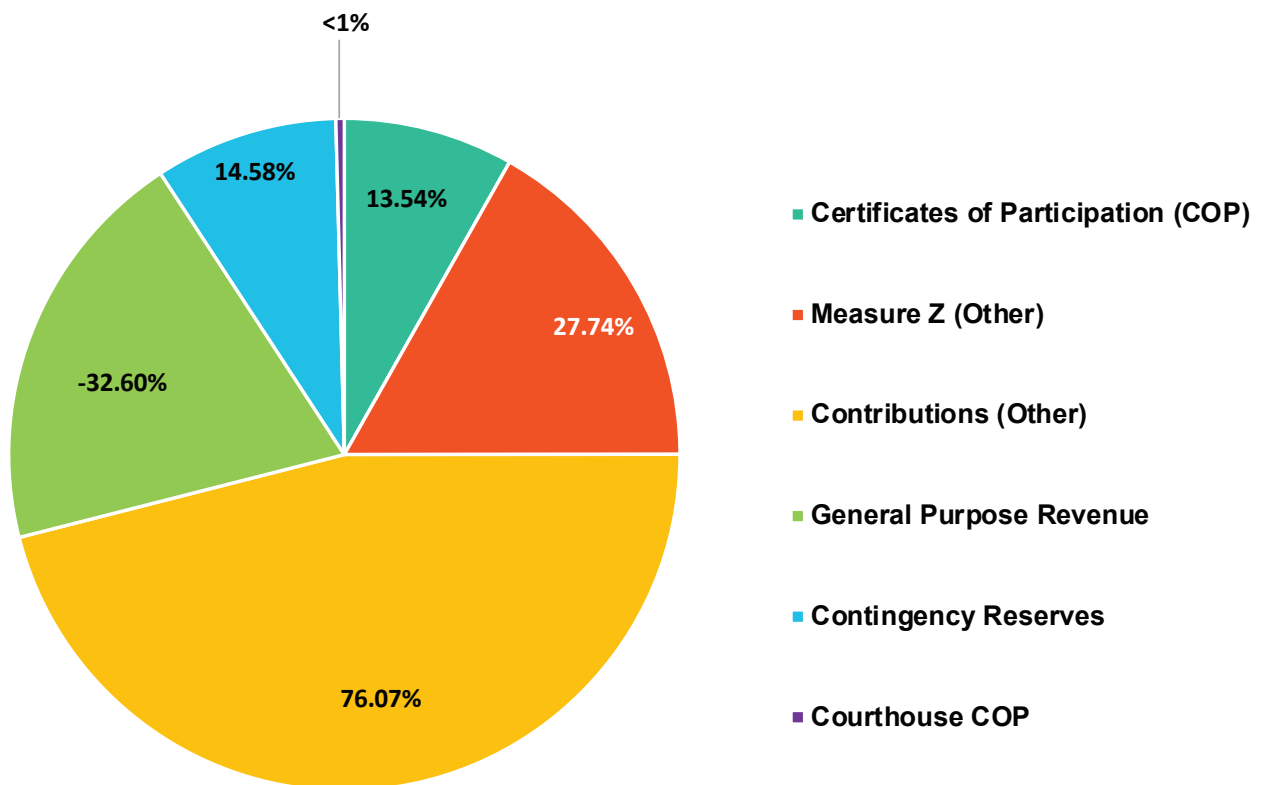


COUNTY GOVERNMENT STRUCTURE

Transfers & Contingencies

Transfers and Contingencies are composed of transfers from the county General Fund to other operating funds within the county and funds held in contingency and reserve. The chart below depicts where the remaining balance of proposed expenditures reside.

Expenditures \$11,194,118





BUDGET GOALS & PRIORITIES

The County Administrative Office developed the FY 2019-20 Budget upon the core roles, priorities and goals of the Board of Supervisors' current Strategic Framework. In addition, budgetary recommendations are based on Board-adopted financial policies and directives that assist in developing budget priorities and funding levels.

Strategic Framework

FOCUS

To promote a safe, healthy, economically vibrant community

STRATEGIC FRAMEWORK/BUDGET GUIDELINES

- Enforce laws and regulations to protect residents
- Strengthen climate change resiliency
- Provide for and maintain infrastructure
- Create opportunities for improved safety and health
- Encourage new local enterprise
- Support business, workforce development and creation of private-sector jobs
- Protect vulnerable populations

PRIORITIES FOR NEW INITIATIVES

Provide our core services in ways that:

- Match service availability with residents' needs
- Provide community-appropriate levels of service
- Support self-reliance of citizens
- Streamline county permit processes
- Retain existing and facilitate new living-wage private sector jobs and housing
- Safeguard the public trust
- Manage our resources to ensure sustainability of services
- Invest in County employees
- Invite civic engagement and awareness of available services

Make proactive decisions to:

Partner to promote quality services

- Foster transparent, accessible, welcoming and user friendly services
- Facilitate the establishment of local revenue sources to address local needs
- Seek outside funding sources to benefit Humboldt County needs
- Facilitate public/private partnerships to solve problems
- Build interjurisdictional and regional cooperation

Be an effective and influential voice for our community at the regional, state and federal levels

- Advance local interests in natural resource discussions
- Engage in discussions of our regional economic future
- Engage new partners

BUDGET GOALS & PRIORITIES

VALUE STATEMENT

The Board of Supervisors wishes to promote an organizational environment in which staff and department heads are encouraged to explore innovative ways to align the County with current external realities, and are on the lookout for opportunities to improve our organization and the community.

FOCUS AREAS AND GOALS TO ACHIEVE BY 2037

The Board has identified four primary focus areas: healthy and safe communities, a healthy environment with robust infrastructure, a resilient and thriving economy, and improved county government operations. The Board recognizes the community's desire to see progress related to this strategic framework, and therefore has provided direction to their department heads to enhance our core services on the following goals for FY 2020-21:

1. Increase access to housing.
2. Review housing options for county employees.
3. Reduce Adverse Childhood Experiences (ACES) and improve the implementation of trauma-informed care practices.
4. Reduce and/or eliminate substance abuse and opioid addiction in our community.
5. Improve transportation network to be properly maintained, multi-modal and energy efficient (e.g. roads, trails, public transportation and commercial airline).
6. Improve trails, rivers, and parks infrastructure.
7. Improve communications infrastructure (e.g. broadband).
8. Foster healthy forests, wildlife, and watersheds, thereby creating healthy fish population, through responsible management of our forest lands and watersheds.
9. Improve the economy of Humboldt County.
10. Stabilize and support a successful cannabis economy.
11. Utilize innovative technology (e.g. energy independence, sustainable biomass management and transpacific cable).
12. Identify synergies between all county departments and cities to increase efficiency and effectiveness.
13. Create a community where county programs, services and facilities are accessible to all with disabilities.
14. Create campus-like county facilities with co-located services that are desirable to work and be in, in consultation with the cities.
15. Attract and retain the best county employees.
16. Improve the county's financial stability through contributions to the General Reserve, Public Agency Retirement System (PARS) and Deferred Maintenance.



BUDGET SCHEDULE

Budget Calendar

The County of Humboldt operates on a fiscal year that begins on July 1st and ends on June 30th. For budgeting purposes, the fiscal year is divided into four quarters. Following is a description of budgetary reports provided to the Board after first quarter, at mid-year, and after third quarter:

After 1st Quarter: In November, the County Administrative Office presents the first quarter report on the annual budget to the Board of Supervisors. The first quarter report includes the year-end closeout adjustments and any state and federal allocation adjustments. In general, this period is used to refine estimates and to incorporate those changes into the FY 2020-21 Adopted Budget with the first quarter report. Also at this time, the Management and Budget Team staff start preparing the Financial Forecast and the second Mid-Year quarter report in preparation for the next year's budget.

Mid-year: In late January or early February, a calendar is presented to the Board of Supervisors outlining the timeline for budget development and implementation for the next fiscal year. In February, the Mid-Year Budget Report (second quarter) is presented to the Board. The Mid-Year Report typically represents the last opportunity during the fiscal year to address budgetary concerns on the road to producing a balanced budget. In addition, the Financial Forecast is also presented to the Board to provide economic trends, future years' revenue projections and to highlight possible concerns or issues that may affect county government. The County Administrative Office distributes guidelines and forms to departments for development of their proposed budgets for the upcoming fiscal year and conducts an annual budget meeting. Additionally, departments representing service areas participate in community budget forums to listen to public concerns and suggestions for budgetary and project consideration.

After 3rd Quarter: The County Administrative Office conducts departmental budget discussions prior to departmental presentation to the Board of Supervisors. The County Administrative Office presents the FY 2020-21 Proposed Budget for the upcoming fiscal year in June. The Proposed Budget Hearings are typically held in the third week of June and formal adoption of the FY 2020-21 Budget occurs prior to June 30th. A third quarter report is presented to the Board in early May if budgetary constraints require.

BUDGET SCHEDULE

Budget & Fee Schedule Development Calendar For FY 2020-21

Wednesday, February 5	Budget workshop: County Administrative Office presents 2020-21 budget instructions to county departments
Wednesday, February 11	Present 2019-20 Mid-Year Budget Report and Financial Forecast to Board of Supervisors
Monday, March 16	2020-21 Budget Requests Completed by county departments and due to County Administrative Office
Monday, April 6	Board Retreat/Strategic Framework
Friday, May 8	2020-21 draft budget sent to departments for review
Friday, May 15	2020-21 draft budget returned to CAO with any final modifications
Tuesday, June 2	County Administrative Office presents 2020-21 proposed county budget to Board of Supervisors
Monday, June 15	Public hearings on 2020-21 proposed county budget; 1:30 & 5:30 p.m.: Clerk of the Board required to publish notice
Monday, June 22	Fee Update: County Administrative Office distributes fee instructions to county departments
Tuesday, June 23	FY 2020-21 county budget adopted by Board of Supervisors
Monday, August 3	Fee update requests completed by county departments and due to County Administrative Office
Tuesday, September 15	FY 2020-21 county fee schedule public hearing noticed and fees publicly available & public hearing for special district budgets
Tuesday, October 6	FY 2020-21 county fee schedule adopted by Board of Supervisors
Tuesday, November 3	Present 2020-21 First Quarter Report to Board of Supervisors
Monday, November 9	Effective date for updated county fees (except Planning & Building)
Monday, December 7	Effective date for updated Planning & Building Fees



BUDGET SCHEDULE

Budget Schedules

The budget schedules in the budget book contain numerical information included in the County Budget. Each schedule is presented in the format prescribed by the California State Controller. The schedules are obtained through the County's financial system, where budget information was entered by County departments under the direction of the County Administrative Office.

Master Fee Schedule

Annually, county departments review fees and charges to determine whether such fees and charges are sufficient to ensure cost recovery of services. County staff present proposed fees at a public hearing to the Board of Supervisors. A comparison of the existing fees and charges to those proposed are presented outlining proposed changes to existing and/or new fees with calculations supporting the new charge and documentation detailing why the fee is being recommended by the affected department. The purpose and intent of the Master Fee Schedule is to establish a comprehensive consolidated guideline related to the County of Humboldt's fees for services.

Fund Types & Structure

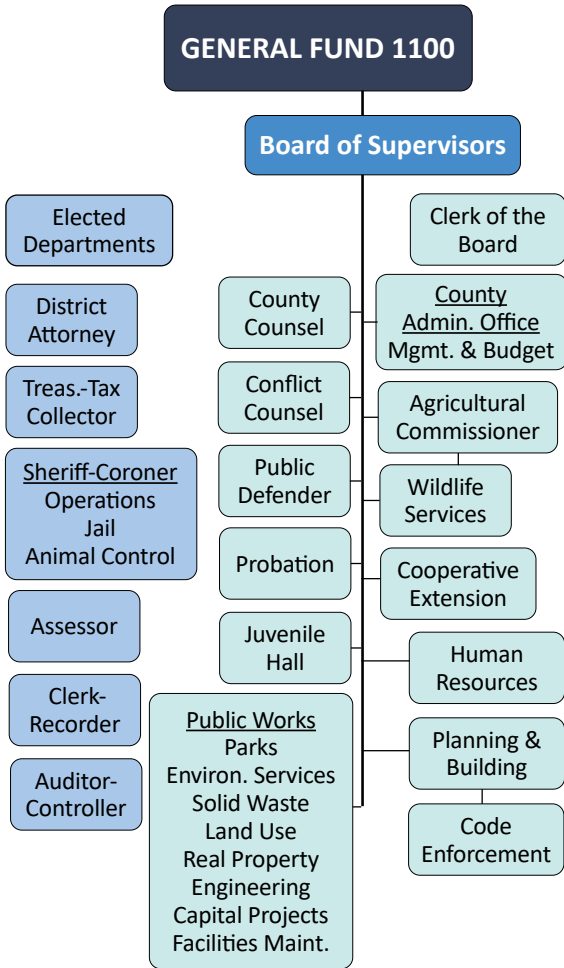
The total county budget includes funding for many programs in the areas of health, welfare, and public safety. Many of these programs are mandated, regulated, and funded by the state and federal governments. The Board of Supervisors has limited authority over the policy and administration of these programs. The county budget also includes funding to provide local services not affected by state laws, such as libraries, land-use planning, and county road construction and maintenance.

The county accounts for expenditures and revenues according to generally accepted accounting principles as defined by the Governmental Accounting Standards Board (GASB). The accounts of the county are organized based on funds. A fund is an independent fiscal and accounting entity with a self-balanced set of accounts. The county's budget is allocated across multiple operating funds to allow for proper accounting of all expenditures and revenues. The fund balance is the difference between assets and liabilities of a governmental fund. A portion of this balance may be available to finance the next year's budget.

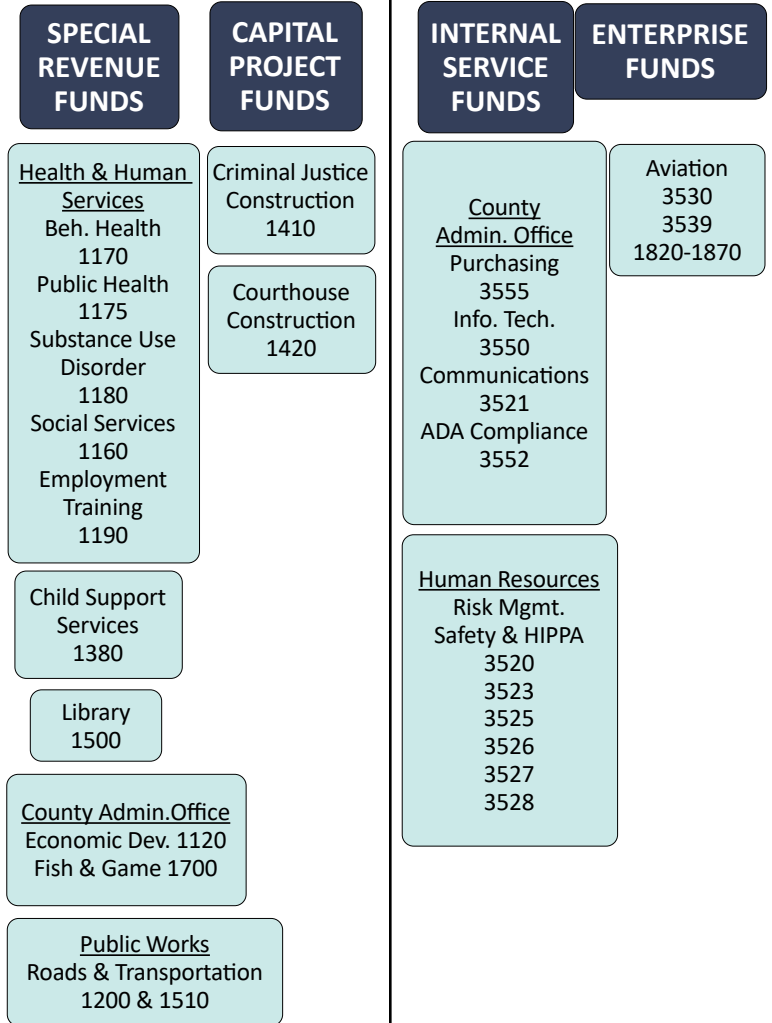
FUND TYPES & STRUCTURE

The county's budget is comprised of the following types of County Operating Funds:

GOVERNMENTAL FUNDS



PROPRIETARY FUNDS





FUND TYPES & STRUCTURE

GENERAL FUND

General Fund includes all resources that are not required to be accounted for in a separate fund. The largest portion of General Fund revenue is derived from local property and sales taxes. The General Fund is allocated to fund core services provided by the county such as general government, planning and building services, public safety, and public assistance.

SPECIAL REVENUE FUNDS

Restricted revenue sources, many by statute, may only be allocated for specific purposes. Services that are funded with Special Revenue Funds include mental health services and roads.

CAPITAL PROJECTS FUNDS

Revenue used for the acquisition or construction of major capital projects.

DEBT SERVICE FUNDS

Includes the county retirement contribution related to pension obligation, Certificates of Participation (COP) annual payments and payments related to short-term financing plans using county-pooled funds.

INTERNAL SERVICE FUNDS

Funds used for the activities associated with various insurance programs, such as Workers Compensation and General Liability, and centralized services, such as Purchasing, that are included in the county's annual cost allocation plan.

SPECIAL DISTRICT FUNDS

There are two types of special districts: dependent and independent. Dependent districts are those overseen by the Board of Supervisors as District Directors. Independent Special District Funds are not included in the county budget or this budget book, although their cash balances are included in the county's audited financial statements since the majority maintain accounts within the County Treasury.

BUDGET/FINANCIAL POLICIES

Preparation of the annual budget is built upon policy direction provided by the Board of Supervisors that the County Administrative Officer (CAO) uses to formulate fiscal strategies to address immediate needs and long-term sustainability of the organization. The following guidelines and policies represent the basic fiscal principles and general governmental accounting standards used in the development of the annual budget.

The County of Humboldt is committed to establishing achievable and sustainable fiscal policies. Best practices, as recommended by the Government Finance Officers Association (GFOA), state that the county should maintain a prudent level of financial resources to safeguard against reducing service levels, incurring debt or raising taxes or fees due to temporary revenue shortfalls or unpredicted one-time expenditures. By adopting and implementing GFOA's guidance on establishing minimum limits on identified fund balances, the county will have the fiscal tools in place to adapt to economic, social and political changes.

The GFOA recommends that local governments establish policies regarding how and when a government builds up stabilization funds such as the General Fund Reserve and the General Fund Contingency Reserve. Such policies not only allow the county to respond more quickly and effectively to financial emergencies, but it may also be viewed positively by credit rating agencies, such as Fitch and Moody's, when evaluating a government's credit.

(Policies in their entirety may be found on the county's website at: <https://humboldt.gov.org>).

County Budget Act

California Government Code Sections 29000 through 30200, as applied through rules issued by the Office of the State Controller, provide the legal requirements pertaining to the content of the budget, budget adoption procedures and dates by which action must be taken.

Balanced Budget

On October 7, 2008, the Board adopted a policy to control expenses in such a manner that department budgets are not expended above the levels that are appropriated in the annual budget or beyond that which the county has the funds to pay.

The following guidelines establish how a balanced budget will occur:

- A. The annual budget is an operational, fiscal, and staffing plan for the provision of services to the residents of the county. Therefore, the county and its departments shall endeavor to annually adopt a balanced budget as a whole, where expenditures do not exceed current available revenue sources.
- B. In the event, due to unforeseen circumstances, a balanced budget cannot be adopted, a four-fifths vote of the Board of Supervisors is required to adopt an unbalanced budget.
- C. Recurring expenses may not exceed recurring revenues.
- D. The use of available fund balance shall be limited to one-time only expenditures and is generally earmarked to support capital projects, fixed asset purchases and the acquisition of communications and computer systems.



BUDGET/FINANCIAL POLICIES

- E. New and/or expanded unrestricted revenue sources will first be applied to support or restore existing county programs prior to funding new or non-county programs. Expansion of existing programs is possible, with the availability of sufficient funds to meet the needs of existing programs.
- F. One-time revenues will only be used for one-time expenditures.
- G. The CAO shall coordinate the implementation of this policy.

Basis of Accounting

Budgets are adopted for the General Fund and most special revenue funds. Accounting principles applied for purposes of developing data on a budgetary basis are materially the same as those used to present financial statements in conformance with generally accepted accounting methods. The County of Humboldt adopts the budget government-wide financial statements, which comprise both the governmental and proprietary fund-basis financial activities, are prepared and reported using the economic resources measurement focus and the accrual basis of accounting pursuant to the Governmental Accounting Standards Board (GASB) Statement number 34. The government-wide financial statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the county. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the county gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year that the taxes are levied. Revenues from sales taxes are recognized when the underlying transactions take place. Revenues from grants, entitlements, and donations are recognized in the fiscal year that all eligibility requirements have been satisfied. Prior to the end of year worksheet adjustment conversion into the whole of the government-wide financial statements, the governmental activities are prepared and reported using the flow of financial resources measurement focus and the modified accrual basis of accounting, pursuant to GASB Statement number 11.

Budget Amendment Process

The State of California County Budget Act, Article 6 – Appropriations and Transfers authorizes amendments to the adopted budget through the budget adjustment process. Revisions enable departments to move or adjust budgeted appropriations or adjust estimated revenues. Pursuant to revised county policy, dated May 7, 2019, departments may request budget amendments at any time during the fiscal year. Budget amendments may include requests to add revenue and appropriations, to transfer appropriations or revenues between budget units, transfer between funds, or add a fixed asset to the fixed assets list requiring Board of Supervisors approval. Transfers within the same budget unit, however, may be accomplished via approval of the Auditor-Controller and County Administrative Office.

BUDGET/FINANCIAL POLICIES

General Fund Contingency Reserve Policy

On February 6, 2018, the Board adopted a Contingency Reserve Policy to hold funds in reserve for cash flow purposes, revenue shortfalls, unanticipated one-time expenditures, and capital expenditures. This policy states that the General Fund Contingency Reserve shall be budgeted for each year and contributions to the reserve may be made when the county receives unexpected one-time revenues. It should be noted that at year-end, the balance of the Contingency Reserve may be used for other funds, such as the General Reserve. Accordingly, the Contingency Reserve must be replenished each fiscal year. The county shall hold funds in reserve for cash flow purposes, revenue shortfalls, unanticipated one-time expenditures, and capital expenditures. These cash reserves include but are not limited to: Library Contingency; Roads Contingency; General Fund Contingency Reserve; General Reserve; and Deferred Maintenance.

- A. The General Fund Contingency will be budgeted at a minimum of 2 percent of the county's total General Fund revenues on an annual basis.
- B. When the General Fund receives unbudgeted one-time revenues, consideration shall be given to contributing a portion of those revenues to the General Fund Contingency Reserve.
- C. All other contingencies will be budgeted in amounts necessary to preserve the financial stability of the individual fund.
- D. Allocation criteria for using the Contingency Reserve to support one-time costs:
 - 1. When the county is impacted by an unanticipated reduction in state and/or federal funding and/or aid;
 - 2. When the county faces economic recession/depression and the county must take budget action before the beginning of a fiscal year;
 - 3. When the county is impacted by a natural disaster;
 - 4. When the county is presented with an unanticipated or unbudgeted expense that is necessary for the delivery of local services; and,
 - 5. When the county is affected by known future events with unknown fiscal ramifications that require the allocation of funds.
- E. The Contingency Reserve may also be used to support ongoing costs or as a financing mechanism when presented with critical program initiatives that have a time requirement that cannot be deferred. The program initiatives would become part of the next year's operating budget and be subject to review by the BOS at that time.
- F. In each case when a request for Contingency Reserve funding is made, the department requesting the funds must provide an analysis demonstrating that funds do not exist within their current modified budget.
- G. When possible, the allocation of the Contingency Reserve funding should occur at a quarterly budget review.
- H. No expenditure shall be made directly from the Contingency Reserve. Funds for expenditure shall be transferred to a budget unit.



BUDGET/FINANCIAL POLICIES

- I. A four-fifths vote of the BOS is required to authorize Contingency Reserve expenditures.
- J. The CAO shall coordinate the implementation of this policy. The CAO will work with all necessary departments and the BOS to make appropriate contributions to the General Fund Contingency Reserve in an effort to ensure a solid financial foundation for the county.

General Fund Reserve Policy

On February 6, 2018, the Board adopted a Reserve Policy to hold funds in reserve for cash flow purposes, revenue shortfalls, unanticipated one-time expenditures, and capital expenditures. Policies regarding the use of these funds are often tied to an adverse change in economic indicators (such as declining employment or personal income) to ensure that the funds are not depleted before an emergency arises. Such is the case for the County of Humboldt's policy, which depends on locally generated revenue. In short, this policy aims to contribute to the county's general reserve during times of economic prosperity so that funds are available during times of budgetary stress.

This policy identifies the county's cannabis excise tax as the main source of revenue by which to determine contribution amounts. As a new local tax approved by voters in 2016, the cannabis excise tax has the potential to generate significant revenue, but is also potentially volatile due to recent changes in regulations in California. Until this new, unestablished revenue source can gain a stronger standing in the eyes of credit rating agencies such as Fitch and Moody's, the county's credit could be negatively affected if it is heavily relied upon to fund many ongoing expenses.

The county shall hold funds in reserve for cash flow purposes, revenue shortfalls, unpredicted one-time expenditures, and capital expenditures. These cash reserves include but are not limited to: Library Contingency; Roads Contingency; General Fund Contingency; General Reserve; and Deferred Maintenance.

- A. The General Reserve shall target a balance of 10 percent of the county's total General Fund expenditures, as averaged by the current and prior year adopted budgets. While the county aims to eventually reach the GFOA recommended balance of no less than two months of regular general fund operating revenues or 16 percent, it will first build up reserves to 10 percent. Government Code § 29085 gives the Board of Supervisors (BOS) authority to determine reserve contributions.
- B. The General Reserve will be used to support the following:
 1. Essential cash flow for county operations during the first six months of the fiscal year until property tax payments are collected in December; and
 2. Extraordinary expenditures due to unforeseen events that exceed the capacity of appropriated funds, including the Contingency Reserve.
- C. No expenditure shall be made directly from the General Reserve. Funds for expenditure

BUDGET/FINANCIAL POLICIES

shall be transferred to a budget unit. The General Reserve fund shall be the last resort in balancing the county budget.

- D. A four-fifths vote of the BOS is required to authorize General Reserve expenditures.
- E. Until the General Reserve balance has reached target levels, the county shall include an allocation to the General Reserve equaling no less than 10 percent of the annual tax revenue derived from the county's Cannabis Excise Tax.
- F. Transfers detailed in Section E shall be made unless financial constraints, as determined by the BOS and County Administrative Officer (CAO), prohibit such a transfer.
- G. In the event that the General Reserve contribution has been decreased or increased from the prior year's contribution, at the time the budget is adopted, the CAO must identify and report to the BOS on the specific circumstances that have led to an increase or decrease in the General Reserve.
- H. The CAO shall coordinate the implementation of this policy. The CAO will work with all necessary departments and the BOS to make appropriate contributions to the General Reserve Fund in an effort to ensure a solid financial foundation for the county.
- I. The CAO shall report annually to the BOS on the progress of meeting said General Reserve policy and provide year-to-date General Reserve balances.

Deferred Maintenance

On November 13, 2018, the Board of Supervisors adopted a revised policy to outline the policies and procedures regarding provisions for budgetary reserves and to adequately fund deferred maintenance to ensure capital assets are properly maintained to maximize useful life of those assets. This policy is necessary to plan for large expenditures and to minimize deferred maintenance, and to ensure that facility maintenance receives appropriate consideration in the budget process.

- A. The county shall target an annual contribution to the Deferred Maintenance Fund of an amount that is no less than 2 percent of the total deferred maintenance costs of \$28.7 million as noted in the Facilities Master Plan brought before the BOS on July 8, 2008 (Agenda Item E-1). Beginning FY 2019-20, the total deferred maintenance cost shall be adjusted annually by a factor equivalent to the Consumer Price Index.
- B. The Deferred Maintenance Fund will be used to support the following:
 - 1. Costs for maintenance and improvements to county-owned facilities, including personnel necessary to carry out and manage deferred maintenance projects.
 - 2. Maintenance needs identified in the Facilities Master Plan and items identified and recommended by Public Works staff, upon Board approval.
- C. The allocation of Deferred Maintenance funding should occur at the time of bid award.
 - 1. No expenditure shall be made directly from the Deferred Maintenance Fund. Funds for expenditure shall be transferred to the associated Capital Project in Budget Unit 170 (Capital Projects) and be listed on the capital improvement program adopted by the Board.



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- D. Each fiscal year, the county shall deposit an amount equaling no less than 2 percent of Total Deferred Maintenance Costs to the Deferred Maintenance Fund.
1. Funding for this annual contribution shall be made from local, unrestricted revenue sources, such as property taxes, sales taxes and local revenue measures.
- E. In the event that the Deferred Maintenance contribution is less than 2 percent of the county's Total Deferred Maintenance Costs at the time the budget is adopted, the CAO must identify and report to the Board on the specific
- F. The CAO shall coordinate the implementation of this policy. The CAO will work with all necessary departments and the Board to make appropriate contributions to the Deferred Maintenance Fund in an effort to ensure sound stewardship practices of public assets and a solid financial foundation for the county. circumstances that have led to a less than 2 percent contribution, and will report to the Board the strategy to ensure the policy level contribution will occur in the following fiscal year.

Debt Limits

According to California Government Code Section 29909, the bonded debt limit for general law counties is 5 percent of the "taxable property of the county as shown in the equalized assessment roll." The County of Humboldt 2018 assessed valuation Secured and Unsecured Net Roll Value is \$13,950,356,606. The 5 percent limit of this total is \$697,517,830. As of June 30, 2019, the County of Humboldt's total debt amount is \$326,638,648 (or 46 percent of the assessed valuation), which is well below the 5 percent limit allowed. Total outstanding county debt includes Certificates of Participation in the amount of \$8,616,628, and pension obligations in the amount of \$318,022,020.

Debt Management Policy

The Board of Supervisors adopted a revised policy on June 27, 2017. The purpose of this policy is to promote fiscal responsibility and long-term planning efforts to establish guidelines addressing capital improvement costs, short-term and long-term cash management and to create policies and procedures that minimize the county's debt service and issuance cost. The primary objective is to ensure prudent debt management practices to maintain financial stability, preserve public trust and minimize costs to taxpayers. In addition, the county shall observe the following goals:

- Provide benefits to the public by identifying benefits, cost savings and contribution to prudent use of debt financing;
- Long-term debt shall not be used to finance ongoing operational costs;
- Whenever possible, the county shall pursue alternative sources of funding, such as pay-as-you-go or grant funding, in order to minimize the level of direct debt;
- Whenever possible, the county shall use special assessment, revenue or other self-supporting debt instead of General Fund obligated debt;

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- Any debt issued shall not have a maturity date beyond the useful life of the asset being acquired or constructed by the debt proceeds;
- The county shall establish an affordable debt level in order to preserve credit quality and ensure sufficient revenue is available to pay annual debt service.

The county's overriding goal in incurring long-term financial obligations is to respond to the evolving needs of its citizens while maintaining its fiscal responsibilities. This policy documents the county's goals for the use of debt instruments and provides guidelines for the use of debt for financing county needs.

Although long-term financing sometimes requires higher total expenditures rather than a cash purchase, it has the benefit of allowing immediate completion of the project so that those paying for the project are also those utilizing the project. Additionally, during times of rapidly increasing construction costs, the costs related to financing a project are sometimes less than construction cost increases caused by delaying the project until adequate cash is available.

The county's Debt Management Policy is designed to:

- Establish guidelines for the use of debt financing;
- Provide guidance to decision makers related to debt affordability standards;
- Promote objectivity in the decision-making process;
- Facilitate the actual financing process by establishing important policy decisions in advance.

The debt policies and practices of the county are, in every case, subject to and limited by applicable provisions of state and federal law. The county will adhere to the following legal requirements for the issuance of public debt:

- State law, which authorizes the issuance of the debt;
- Federal and state tax laws, which govern the eligibility of the debt for tax-exempt status;
- Federal and state securities laws governing disclosure, sale and trading of the debt.

The County Administrative Office plans to prepare a five-year capital program for consideration, prioritization and adoption by the Board of Supervisors as part of the county's budget process. It is proposed that on an annual basis, the capital budget shall identify revenue sources and expenditures for the coming current year and the next succeeding four fiscal years. And, that the plan be updated annually. The County Administrative Office has recently prepared an Americans With Disabilities Act (ADA) 5-year capital improvement plan to bring county facilities that provide a program, service or activity to the public into compliance with the ADA over an extended period of time. Additionally, a comprehensive Facilities Master Plan is being prepared to guide short- and long-term facilities planning and improvements, and is expected to be presented to the Board in the summer of 2020. Facilities assessment, space planning, facilities management, survey design and analysis, conceptual design, preliminary cost estimating, and cost/benefit analysis of options will be included in the Facilities Master Plan.



BUDGET/FINANCIAL POLICIES

Funding of the Capital Improvement Program

Whenever possible, the county will first attempt to fund capital projects with grants or state/federal funding, as part of its broader capital improvement plan.

When such funds are insufficient, the county will use dedicated revenues to fund projects. If these are not available, the county will use excess surplus from the General Reserve debt financing, and general revenues.

The county shall be guided by three principles in selecting a funding source for capital improvements:

- 1) Equity
- 2) Effectiveness
- 3) Efficiency

Maintenance, Replacement and Renewal/FLIP

The county intends to set aside sufficient current revenues pursuant to the Board adopted policy outlining contributions to the Deferred Maintenance Fund, which establishes support costs for capital improvements to county owned facilities. Adopted on November 13, 2018, this policy states the Deferred Maintenance Fund shall receive an annual contribution of five percent of the total deferred maintenance costs.

The Deferred Maintenance Fund will be used to support costs for capital improvements to county owned facilities for the financing of ongoing maintenance needs and to provide periodic replacement and renewal consistent with its philosophy of keeping capital facilities and infrastructure systems in good repair and to maximize a capital asset's useful life.

No county debt issued for the purpose of funding capital projects may be authorized by the Board of Supervisors unless an appropriation has been included in the capital budget.

DEBT ADVISORY COMMITTEE

All proposed debt financings shall be presented to the Debt Advisory Committee ("the Committee") for review and recommendation and must be approved by the Board of Supervisors.

The Committee shall:

- Oversee the issuance of all county debt;
- Periodically review and evaluate existing county debt;
- Periodically review, revise and/or amend the existing county Debt Management Policy as needed (revisions must be approved by the Board of Supervisors);
- Review all internal financing requests and unsolicited financing proposals to ensure they comply with the Policy; document and justify any recommended exceptions;
- Make appropriate recommendations to the Board of Supervisors;
- Ensure all covenants and continuing disclosure requirements are met on each existing debt issue.

COUNTY BUDGET FORMULA

County Budget Formula

The basic budget formula is applicable to counties, dependent special districts and other agencies under the supervision and control of the Board of Supervisors. Government Code Section 29009 requires the adopted budget to be in balance; therefore, Total Financing Sources shall equal Total Financing Uses.

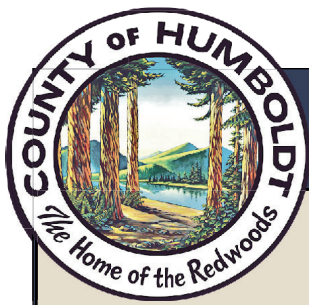


Source: California State Controller's Office *County Budget Guide*

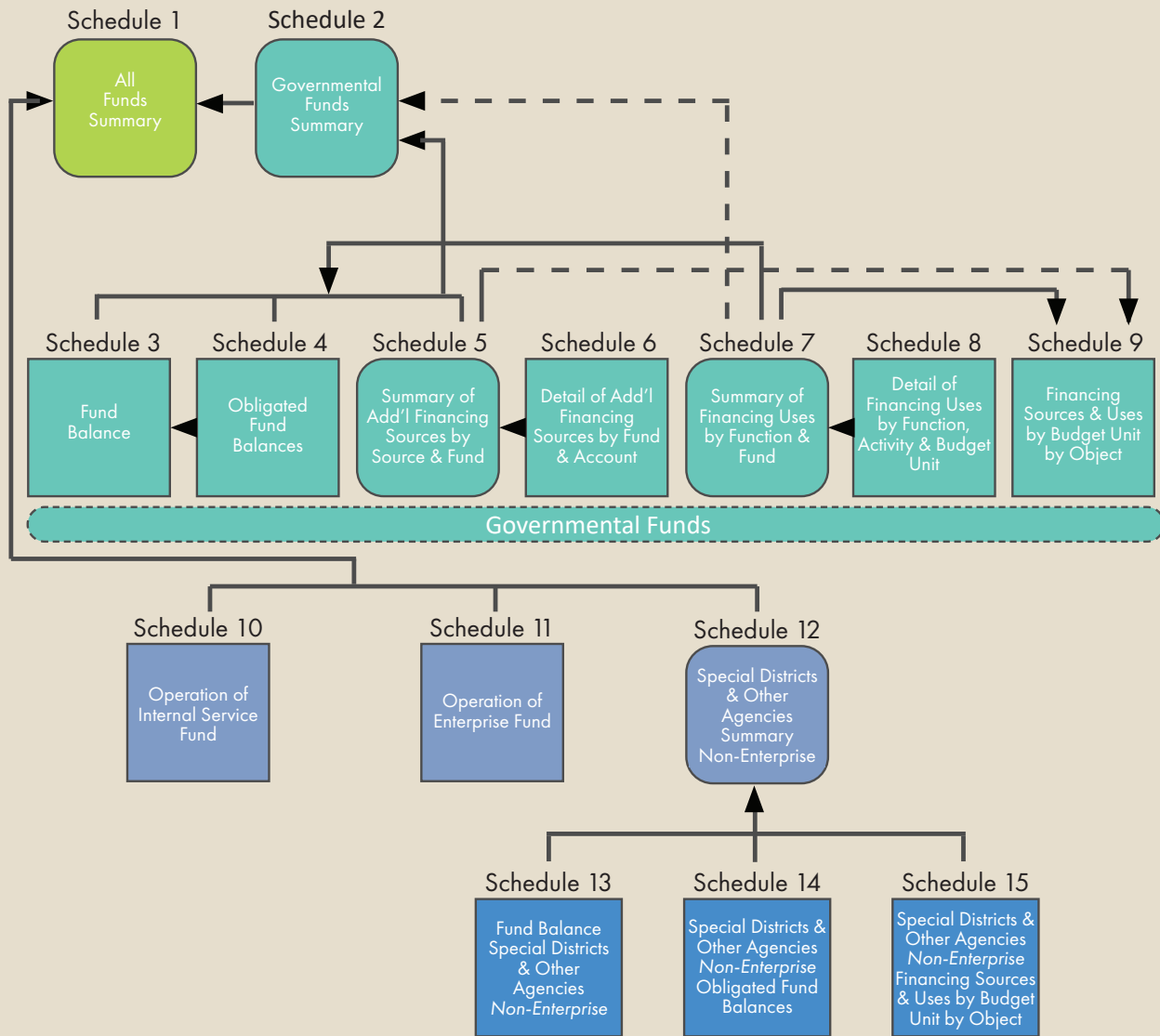
Each type of schedule is identified numerically and contains a heading to describe the information contained within. Schedule numbers are located in the upper right, and the schedule title is located at the top of each schedule. For example, Schedule 9 (each governmental budget unit has its own Schedule 9) is titled "Budget Unit Detail."

The State Controller requires that 15 different schedules be presented within the budget book. Schedules 1 through 15 can be found in this budget book under the section titled "Appendices". Below is a list of each of the budget schedules required:

1. All Funds Summary
2. Governmental Funds Summary
3. Fund Balance – Governmental Funds
4. Reserves/Designations – By Governmental Funds
5. Summary of Additional Financing Sources by Source and Fund
6. Detail of Additional Financing Sources by Fund and Account
7. Summary of Financing Uses by Function and Fund
8. Detail of Financing Uses by Function, Activity and Budget Unit
9. Financing Sources and Uses by Budget Unit by Object (Most Common Schedule)
10. Operation of Internal Service Funds
11. Operation of Enterprise Funds (The County of Humboldt does not utilize this schedule.)
12. Special Districts and Other Agencies Summary
13. Fund Balance – Special Districts and Other Agencies
14. Special Districts and Other Agencies – Reserves/Designations
15. Special Districts and Other Agencies – Financing Sources and Uses by Budget Unit by Object



BUDGET SCHEDULE FLOWCHART



Source: California State Controller's Office *County Budget Guide*

READING A SCHEDULE 9 (BUDGET UNIT DETAIL)

Each Budget Unit in a Governmental Fund has a Schedule 9, making it the most common schedule in the Budget book. The following instructions explain how to read a Schedule 9 form.

FINANCING USES CLASSIFICATION, COLUMN 1

Column 1 provides information on what specific category of revenue or expenditure is shown, along with the code used by staff to represent those figures. All expenditures start with the number 86, while revenues start with the number 82. The third number in each code is called the “Thousand Series Number,” which delineates groupings of revenues and expenditures. For example, “861011 Regular Employees” covers the cost of employee salaries (but not benefits). “86” means it is an expenditure. If the next numbers fall between 1000 and 1999 it means they cover personnel compensation related costs. By looking at the number you can tell that 861011 is a personnel related expenditure. The Thousand Series for expenditures used throughout the Budget book are:

- The 1000 Series – Salaries & Employee Benefits
- The 2000 Series – Services & Supplies
- The 3000 Series – Other Charges
- The 8000 Series – Fixed Assets

2017-18 ACTUALS, COLUMN 2

Column 2 represents actual amounts for spending and revenues three years prior to the current budget year. These represent some of the best comparisons to use when examining a budget. This is not required information for the State Controller’s Office, but is included for additional historical context for the public.

2018-19 ACTUALS, COLUMN 3

Column 3 represents actual amounts for spending and revenues two years prior to the budget year. These actual prior year numbers represent some of the best comparisons to use when examining a budget.

2019-20 ADOPTED, COLUMN 4

Column 4 represents actual amounts for spending and revenues one year prior to the budget year. When reading the Budget book, it is important to note that column 4 has the notation Estimated, and may not accurately reflect what the Actual numbers will be when the fiscal year is closed. This is because the Budget was adopted and the book is published before the year-end closeout has been completed, and thus not all expenditures have been paid or revenues received. Actual numbers for FY 2019-20 will not be reflected in the Budget Book until the Board adopts the FY 2020-21 budget.

2020-21 REQUESTED, RECOMMENDED & ADOPTED, COLUMNS 5, 6, 7 & 8

Column 5 represents the requested budget numbers for FY 2020-21. Column 6 reflects the Recommended Budget’s change over FY 2019-20’s budget. Column 7 reflects the Adopted Budget. Column 8 reflects the net changes over the Recommended Budget. This is not a requirement of the State Controller’s Office, but again provides a helpful comparison of changes over the prior year.



FUND BALANCE OUTLOOK

Fund balance is the difference between assets and liabilities of a governmental fund. A portion of this balance may be available to finance the next year's budget.

The 7-year forecast for the General Fund shows expenditures exceeding revenues in all 7 years of the forecast. A negative fund balance develops at the end of FY 2022-23 and fund balance is projected to be negative \$20.5 million at the end of the forecast period. Major contributing factors to the declining fund balance include increasing retirement costs, costs for ADA and infrastructure financing, and slow to moderate revenue growth, particularly sales tax and cannabis excise tax. If either of these factors changes for the better, such as cannabis revenue, forecast figures would need to be revised and the fund balance issue would not portray such a bleak picture. In addition, since the Board cannot adopt an unbalanced budget, measures to reduce the negative fund balance and bring forth a balanced budget will be required in future years if expenditures outpace revenues.

Property tax values and other tax revenues are significant factors in the forecast outcome. A change of 1 percent in property tax values is equivalent to approximately \$360,000 in revenue. There is potential that property taxes could be lower or higher than projected. Property tax assumptions are based on recent trends in Humboldt County with a conservative growth factor being added to the estimated Consumer Price Index (CPI). However, trends and the outlook for steady growth, even with factoring in a mild recession, depict increasing property tax revenues throughout the span of the forecast.

OPERATIONAL IMPACTS/BUDGETARY CONCERNS

There are a number of financial issues that continue to face the county in terms of meeting minimum obligations while still providing programs and services to the citizens of Humboldt County. Long-term fiscal stability is a Board priority in safeguarding the public trust by managing resources to ensure sustainability of services. Therefore, the challenges present hurdles that can be managed to coincide with the Board's strategic framework. The main hurdles again facing the county are the county's unfunded liability for the California Employee Pension Retirement System (CalPERS), Americans with Disabilities Act (ADA) consent decree and upcoming transition plan with the Department of Justice (DOJ) and a large backlog of deferred maintenance costs and aging facilities. The county continues to chip away at its outstanding pension obligations but must continue making increased investment to adequately address this challenge.

Contingencies & Reserves

The depicted fund balance scenario includes contributions to Contingencies, Reserves and Deferred Maintenance at policy levels as adopted by your Board last year. With many unknown variables in both revenues and expenditures, it is important to retain fund balance and continue to contribute to the General Reserves and Contingencies to ensure that negative financial impacts can be absorbed without the threat of service reductions. Contingencies would remain at 2 percent of General Fund revenues (roughly \$1.7 million, on average each year). The balance in the General Reserve would be \$17 million if cannabis excise tax revenues

come in as forecast and the county contributed each year at policy levels.

Per policy, contributions to the General Reserve are made at 10 percent of cannabis excise tax revenues until the General Reserve reaches 10 percent of General Fund expenditures. At that point 5 percent of cannabis excise tax revenues will go towards the General Reserve. While this forecast has the reserve reaching 10 percent of General Fund expenditures in 2023-22, it should be noted that the Government Finance Officer's Association recommends as a best practice that reserves should equal no less than 2 months of regular operating expenses, or 16 percent. In FY 2019-20 that amount would equal \$21.7 million, and \$25 million at the end of the forecast period. Healthy reserves are vital to weathering economic recessions, especially as the cannabis industry goes through growing pains associated with a new legal industry. Reserves are also essential to minimizing disruptions to programs and services.

Based on the forecast the General Fund is starting to show improvement, however revenues and expenditures are still not in agreement and that disparity is apparent in future years with declining and negative fund balance predictions. There are a number of fiscal concerns/issues, such as lower-than-expected sales tax revenue; fixed costs increasing faster than revenue growth; unreliable cannabis excise tax revenue; and reliance on fund balance to produce a balanced budget, that are manageable with a long-term plan and a disciplined approach.

Americans with Disabilities Act (ADA)

The county continues to work with the Department of Justice (DOJ) to implement ADA-related projects laid out in its 2016 consent decree with Humboldt County. The county, as a requirement of the consent decree, retained an independent licensed architect (ILA) in April 2017. The ILA is responsible for assessing all county facilities for compliance with the ADA that offer a program, service or activity to the public. The ILA also certifies "barrier removal," or projects that remove obstacles to ADA compliance, performed by the county, and reports the county's progress in terms of compliance with the consent decree to the DOJ.

The county has also retained the services of four design firms for project design and project management for ADA barrier removal. Additionally, the county has also increased staffing with a Deputy County Administrative Officer, Project Manager, Administrative Analyst and two carpenters to address ADA issues identified within the consent decree.

The county has established an internal service fund (ISF) to pay for and allocate costs for required ADA projects. Cost estimates in terms of barrier removal in the form of public projects, including the \$7.5 million for the correctional facility and \$3.6 million for the Garberville Government Complex, total \$27.5 million. Staff anticipates declining, but still significant costs over the next 2 years, then a jump in 2022 mostly due to a one-stop permitting project and the aforementioned Garberville complex. Cost projections depend significantly on the county's "transition plan," which will be determined after the DOJ reviews the county's final report in September regarding the items in the consent decree. While the consent decree focused on projects that must be done in the immediate future, the transition plan will lay out actions the county needs to take to become and remain compliant with the ADA over the long-term.



CalPERS

Humboldt County provides defined-benefit pensions to its retirees through the California Public Employees Retirement System (CalPERS). These plans are pre-funded, meaning both employer and employee make contributions during the working life of the employee and these contributions are then invested and the earnings on the funds are re-invested. If the contribution rates and investment earnings achieve their targets over the working life of the employee, there will be sufficient funds available at the employee's retirement date to pay a defined benefit over the remainder of the employee's life span. Given CalPERS is a pre-funded plan, changes to, or a failure to realize, any of the assumptions that underlie its targets for funding must be made up by adjusting employer contributions in future years. In the past decade, several changes have occurred that have resulted in an unfunded liability of over \$321 million for FY 2019-20 and is expected to increase in the coming FY 2020-21.

Retirement costs continue to increase, but growth rates may slow. The county's contribution rates towards pension costs are expected to rise through the full 7 years of the forecast. CalPERS is now requiring fixed payments towards the county's unfunded liability, rather than a percentage of payroll, which should provide predictability to contribution amounts. The estimated minimum required total employer contribution for FY 2019-20 is \$36.5 million and employee contribution is \$8.5 million, which reflects the annual required contribution but does not address the increasing unfunded liability. In addition, CalPERS several years ago began lowering its estimates on expected returns, which is forcing local governments to contribute more to retirement. The reduced expected returns dropped from 7.5 percent to 7.0 and was phased in over a 3-year process. The FY 2019-20 projected contributions reflect a 7.25 percent estimated return. If the actual investment return differs from these projections, the actual contribution requirements for projected years will differ from those shown above.

Pension Stabilization

The Board of Supervisors several years ago approved a Public Agency Retirement Services (PARS) Pension Rate Stabilization Program (PRSP) in order to begin addressing the mounting unfunded liability. As the balance in the PARS trust grows and produces investment returns, those funds can be utilized to reduce the contribution rate increases, thereby reducing the effect of the contribution rate increase on the county and potentially preventing service reductions.

The FY 2019-20 budget development incorporated an annual departmental contribution to PARS equal to 1.5 percent of salaries totaling \$1,904,420. This is a significant contribution for Humboldt, and represents a step towards addressing the unfunded liability, however sustained contributions to PARS will be needed to make substantial progress towards this effort.

The chart reflects the current contribution and increased contribution rates in subsequent years in an effort to depict possible growth rates to include an estimated interest earned rate between 3 and 6 percent.

Deferred Maintenance

Deferred maintenance costs continue to rise, and your Board this year adopted a policy that requires a contribution of 2 percent of estimated deferred maintenance costs to be allocated toward maintenance on an annual basis. There are several county facilities that require extensive repair and/or rehabilitation, while many others are well behind in regular maintenance. The county contribution to these projects has historically not kept up with costs and will require continued funding to address deferred maintenance issues and maintain facilities in a serviceable condition.

The annual contribution to meet policy levels however may increase as construction costs rise each year. Providing for and maintaining infrastructure is one of the Board's core roles in the 2019 strategic framework. Currently, as depicted in the Deferred Maintenance Costs graph, FY 2019-20 deferred maintenance costs are estimated at \$35.4 million. In order to keep up with inflation of construction costs, annual contributions should rise annually by a factor that is at least twice the Consumer Price Index (CPI), estimated at 2 percent for next year.

Even with predictable and steady allocation, deferred maintenance costs will continue to increase annually based upon a future CPI increase forecasts. Even with an annual allocation at policy levels, deferred maintenance costs would continue to increase over a 7-year period by at least \$6 million.

Finance Plan

In February 2016, the Board of Supervisors approved the 2016 Finance Plan to fund capital improvement projects, which are approved, designed, and built over a period of years. Since capital improvement projects are usually done in stages/phases, it is more cost effective to borrow money as needed for each stage of the project versus borrowing the amount needed for the entire project at the beginning, or first stage of the project. These are projects which often take years to get to the point of actual construction, but which have significant costs leading up to that construction including design, site work, and match funding for state and federal grants. The method of this type of as-needed borrowing is known as "interim period financing," which allows the county to secure debt on an as-needed basis. Interim period financing is typically refunded or paid back by replacing it with long term or permanent financing.

The current 2016 Finance Plan has sufficient debt capacity to finance approved capital projects and ADA barrier removal as shown in the Finance Plan chart (\$30.4 million). The debt capacity of the 2016 Finance Plan would be reached in FY 2020-21. Incurring debt means that it has to be paid back over a period of time and the cost to the county over a 30-year period would equate to \$1.4 million, or more depending on current market rate, (principal and interest) per year.

This estimate includes the first steps on major projects like acquiring and building a facility on 4th Street in Eureka, however it does not include construction on that facility. Construction costs for that project, in particular, will significantly increase the debt the county holds. The finance plan estimate clearly shows there is a need to address ADA barrier removal and still proceed with capital improvement projects for the next 7-year period. That need would entail expanding the debt capacity and also utilizing General Fund monies to pay back such financing on an annual basis.