



**COUNTY ADMINISTRATIVE OFFICE
COUNTY OF HUMBOLDT**

825 5th Street, Suite 111, Eureka, CA 95501-1153
Telephone (707) 445-7266 Fax (707) 445-7299
cao@co.humboldt.ca.us

June 6, 2006

Board of Supervisors
Residents of Humboldt County

SUBJECT: FY 2006-07 County Budget

Dear Board Members and Residents:

I am pleased to present this proposed budget to finance County operations in Fiscal Year 2006-07. This year, for the second year in a row, the budget is based largely on maintenance of effort rather than service and personnel cuts. Even more importantly, for FY 2006-07 I am proposing the restoration of a few cuts made in prior years and the strategic investment of additional resources into much needed programs which will give us opportunities to impact the long-term ability of County government to provide quality services to Humboldt County residents. In short, the light at the end of the tunnel I referred to twelve months ago in the FY 2005-06 budget proposal continues to grow stronger.

FY 2005-06: First Glimmer of Hope

As noted in previous budget transmittals, the first five years of the twenty-first century were not kind to Humboldt County from a fiscal perspective. Your Board made many tough yet admirable choices that positioned us not just to survive the bad years but to come out of the crisis with a financial status that allowed us to operate without further cuts. We were, at the time the FY 2005-06 budget was prepared, "cautiously hopeful."

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In fact, FY 2005-06 has turned out to be even better than anticipated. We ended FY 2004-05 with a higher General Fund balance than we had projected. That, coupled with continuing prudence on the part of departments and forbearance by the State, allowed us to make a couple of significant strides:

- ❖ Concluding negotiations with employee bargaining groups, resulting in the first raises for County employees in four years.
- ❖ Funding several departmental supplemental funding requests at the mid-year review in February 2006, partially restoring previous cuts in some areas.

While these are important steps forward, they represent only a minor fraction of the many needs we face in order to provide the level of services our residents want and need.

FY 2006-07: A Ray of Budgetary Sunshine

Strong revenue forecasts and the most County-friendly proposed State budget we have seen in many years allow us to restore even more services and make targeted investments in improved services and capital needs. As we approach the prospect of "re-building", we plan to take a comprehensive approach to the County's many unmet needs, and carefully prioritize how we will meet our future needs.

To that end, I spoke to you last year about the planning we would undertake during FY 2005-06. We committed ourselves to strategic planning, technology assessment, space and property management, and capital budget development. The budget before you now continues on those paths. Specifically:

- ❖ Strategic Planning: Departments have continued to provide us with important information about the services they provide and the challenges they will be facing in the future. This year we are including in the budget for the first time quantifiable measures of performance, which will help with smart planning and resource allocation in the future.

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- ❖ **Technology Assessment:** This budget includes one new staff member in our Information Technology Division and funding for two positions added during FY 2005-06. The Division continues to work with departments on several major projects, including a comprehensive technology plan for Probation, upgrades to our financial information system and Questys document imaging system, and deployment of programs to serve the District Attorney's Office and the Courts.
- ❖ **Space and property management:** The County Architect has completed analysis of over 160,000 square feet of County owned and leased spaces, has bid out plans for construction or remodeling of nearly 60,000 square feet, and has plans for over 50,000 square feet more on the drawing board. This budget proposes an additional staff person in the Architect's office to manage completion of projects for the Airport, Health & Human Services, and Community Development, and also provides funding for development of a comprehensive space utilization and financing study.
- ❖ **Capital budget development:** The Public Works Department has compiled a list totaling over \$10.0 million of known capital needs, to which other departments have added specific projects. This budget includes funding for over \$500,000 worth of the most critical needs in this area. A detailed listing of capital improvement needs can be found in the County Administrative Office.

As is obvious from this short synopsis, we have made progress but there is still more work to be done in each of these areas. In fact, while our current financial condition is better than anything we have experienced in many years, we still do not have all the resources we need. I believe it is likely that we never will. The needs of citizens in this new millennium are simply too great for our rural County government to address on its own, even in the best of times. We need to invest our resources so as to attain the maximum leverage.

That is why I am pleased to unveil for you an innovative new strategy to fund some (but certainly not all) of our County's critical needs and to encourage entrepreneurial thinking about the provision of services by Humboldt County government:

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Centers for Advancement: Magnifying the Light

We are calling this new strategy Centers for Advancement. It is, at its core, an internal grant-making process for County government. Centers for Advancement will take a portion of our available General Fund resources—after continuing departmental operations are funded, reserves are set at healthy levels, and some small improvements are made—and direct those resources into three pools:

- The Center for Facility Advancement
- The Center for Technology Advancement
- The Center for Employee Advancement

These Centers—through steering teams that make recommendations to your Board—will perform a coordinating role in allocating scarce County resources to three critical areas: capital improvements that will allow County facilities to better serve the public, technology enhancements that will increase operational efficiencies, and employee training and development to create a workforce equipped to meet the future demands of public service. Departments will make application to the Center for funding of one-time investments. They will be encouraged to think creatively, to form partnerships, and to seek maximum leverage of County dollars.

The Centers for Advancement concept has several major advantages: it rewards innovative, entrepreneurial behavior; it allows for a shared model of decision-making in identifying critical County priorities (this was one of the strengths of the manner in which we made cuts between 2001 and 2004); and it is flexible, with no set funding level that must be maintained from year to year. Centers for Advancement can grow in good times and shrink when times turn rough.

Highlights of the FY 2006-07 Operating Budget

The proposed spending plan totals \$234.7 million. This amount is \$13.7 million, or 6.2%, higher than the FY 2005-06 budget of \$221.0 million. The County General Fund comprises \$74.7 million, or 31.8%, of the total budget. The proposed budget includes 1,996.48 full-time equivalent positions.

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The proposed budget includes \$1.3 million of budget restorations and supplemental funding requests. Virtually all of these are ongoing costs, as previously-slashed departments find that their highest priorities are for employees to carry out their respective mandates and missions. Some of the most notable items are:

- ❖ Repayment of the \$1,652,899 loan that the General Fund borrowed from the Motor Pool Fund to balance the budget in FY 2003-04. (This amount is not included in the "supplemental request" total listed above).
- ❖ Restoration of funding for six vacant unfunded Correctional Officer positions in the County Jail. It is anticipated that additional staffing will allow the Sheriff's Office to save approximately \$200,000 per year in overtime costs.
- ❖ A shift of \$338,000 in funding to Social Services for the Children's Health Initiative and to partially fund cost increases in Social Services programs.
- ❖ A shift of \$122,834 in Proposition 172 sales tax revenue to the local Fire Districts.
- ❖ Restoration of a Deputy District Attorney III position in the District Attorney's Office.
- ❖ Restoration of a Code Enforcement Officer in the County Counsel's Office.
- ❖ Restoration of a Supervising Appraiser position in the Appraiser's Office.

The County's General Reserve, which funds County operations and provides critical cash flow during the first six months of the fiscal year until property tax payments are collected in December. Additionally, it acts as a contingency for the County in extreme emergencies. For FY 2006-07, it is recommended that the General reserve be increased from \$1.0 million to \$2.5 million.

The Contingency Reserve covers day-to-day unforeseen budgetary needs, and has been used by your Board

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very sparingly in the past. The proposed budget continues the Contingency Reserve at approximately \$2.9 million for FY 2006-07.

2007-08 & Beyond: Sunshine & Fog

While we can breathe easier with our present fiscal condition, it is important to note that during this budget process we have discovered some future threats to County programs. Departments such as Child Support Services, Health & Human Services, Probation, and the District Attorney's office have reported to us that new cuts, particularly at the federal level, are being passed through the state and onto us in local government. Most of these cuts will not be felt until FY 2007-08, and some may never come to pass at all. (We are working with Humboldt County's legislative representatives in Sacramento and Washington, D.C., to minimize the impacts.) Therefore, we must be cognizant of these potential impacts and make plans to deal with them.

The County is currently in labor negotiations with In-Home Supportive Services, which represents the County's single-largest (albeit independent) bargaining group. Both the results of those negotiations, and/or legislative changes at the state or federal level, could have significant impacts on the County General Fund.

CalPERS, which operates the County's health insurance program, recently announced an increased "administrative fee" which is not included in the health insurance rates used for calculating the FY 2006-07 budget. Declines in the health insurance fund balances, coupled with this unanticipated cost, are likely to lead to a rise in health insurance costs for FY 2007-08.

The County is also facing the natural results of the famous "Baby Boomer" demographic bulge. This sizeable contingent of public employees is rapidly reaching retirement age. As they leave public service, the County will lose literally decades' of institutional knowledge and experience with each employee – and will face the financial obligation to make lump-sum payments to its most senior employees for accrued vacation and sick leave time. The County expects to lose more than 70 employees to retirement in FY 2006-07, and many more over the next five years.

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Other issues that cause us to be cautious are slow reimbursements for grant-funded programs and state mandates, our decades of deferred maintenance in our County buildings (an emergency can arise at any time), and simple cash flow problems.

For these reasons, this budget includes the increased (and more realistic) level of reserves and contingencies mentioned earlier. The funding levels of \$2.9 million for the General Fund Contingency Reserve and \$2.5 million for the General Reserve represent 4.0% and 3.3%, respectively, percent of total General Fund expenditures—healthy for Humboldt County, but still at low levels by nationwide standards. More importantly, though, they represent only 1.3% and 1.1% of total County-wide expenditures. This is significant because the operations of Child Support Services and most of Health & Human Services—the most likely victims of impending cuts—are outside the General Fund.

Conclusion: Keeping the Light Alive & Bright

Our County government has been through some rough times. Comparatively, we are in a period of relative prosperity. Rough times will undoubtedly come again. But through all of the ebb and flow of life and vagaries of revenues and expenditures, the employees of this County remain committed to keeping the light alive in their work on your behalf. Because of that, I truly believe that our future is bright.

It is in that spirit that I submit to you this balanced budget for Fiscal Year 2006-07. As always, thank you to the staff of my office for their tireless efforts in preparing this document; to each of the County departments for their patience, perseverance, and hard work; and to your Board for your wisdom and direction.

Sincerely,



LORETTA NICKOLAUS
County Administrative Officer