

COUNTY OF HUMBOLDT

Fiscal Year 2005-06 Budget

Published by the
Board of Supervisors



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COUNTY OF HUMBOLDT**

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June 28, 2005

Board of Supervisors
Residents of Humboldt County

SUBJECT: FY 2005-06 County Budget

Dear Board Members and Residents:

I am pleased to present this proposed spending plan for financing County operations in fiscal year 2005-06. I am even more pleased to report that this year--for the first time in nearly five years--we will be able to achieve a level of budget expenditure based on maintenance of effort rather than service and personnel cuts.

2001-05: Years of Survival

For the past five years, the Board of Supervisors has been forced to make numerous tough choices, to ensure the survival of our ability to provide vital County services to the residents of Humboldt County. You made well thought out and strategic decisions that allowed the County to operate without the kinds of ongoing deficits experienced by the State of California. You determined early on not to apply a short-term solution to a long-term problem.

Some of the tough choices made to ensure the viability of County government have included:

- A Hiring Freeze which left upwards of 340 positions vacant and unfunded, and enabled the County to make the necessary personnel reductions without massive layoffs;
- Voluntary Furloughs and Salary Reductions for County staff (including a 10% reduction in the salary for the Board of Supervisors), and four consecutive years in which no cost-of-living raises were afforded to County employees;
- Repeated temporary closures of facilities such as County libraries and Sheriff substations;
- Reduced hours of operation in many departments such as the: County Administrative Office, Board of Supervisors, Community Services Department, Cooperative Extension, Child Support Services and Sheriff's Main Station;
- Borrowing from non-General Fund sources of County funding and reduction of general reserves and contingencies to dangerously low levels;
- Restructuring of County obligations, including bringing administration of our health care insurance in house and refinancing of County debt to take advantage of low interest rates;
- Elimination or drastic reduction of General Fund contributions to important community services such as Substance Abuse Treatment, Youth Services Bureau, Veterans Service Organizations, Predatory Animal Control, and outside agencies which promote tourism and economic development in Humboldt County;
- Mandatory across-the-board reductions of 5%, 10%, 15% and 20% to virtually all County departments;
- Deferral of payments for needed maintenance, capital improvements and fleet replacement;
- Encouragement of some of our most senior County employees to take early retirement; and
- A small number of unavoidable layoffs of County employees.

These actions, while painful, positioned the County to continue to fulfill its mission of service to County residents and visitors until we could see a light at the end of this difficult tunnel.

2005 & Beyond: Hope for the Future

I am now able to say that there does appear to be some light at the end of the tunnel. Because of the tough choices the Board has made, and because of the wisdom of the people in the State of California to pass

Proposition 1A, protecting local government from further State funding raids, I am cautiously hopeful about Humboldt County's future.

FY 2005-06: Status Quo

While the light at the end of the tunnel is visible, it must be made clear that it is a very long tunnel. There are a great many service cuts we have sustained over the past years, and we are not at a point of restoring most of them. The

budget presented today still does not provide for a number of funding restorations nor does it address all of the issues that face us, including:

- Restoration of many vacant positions, including important needs such as Sheriff's front line law enforcement, prosecutors in the District Attorney's Office, custodial staff and employees in the Code Enforcement Unit;
- Addressing deferred maintenance on County buildings and restored funding to address broken and outdated equipment and systems;
- Restoration of General Fund contributions to Veterans Service Organizations; and
- Tackling the challenges of space needs and better utilization of county-owned and leased spaces.

Despite these significant omissions, this budget does accomplish a number of things we have been unable to do in recent years. Most importantly, it stops the trend of compounding cuts to departments, allowing for a "status quo" budget that funds existing benefit increases and reverses voluntary work furloughs and salary reductions. This budget also raises the level of general reserves and contingencies.

I want to stress again that this budget--while a welcome respite from five years of reductions--does not include the funding needed to provide the level of services our residents want and need. The "status quo" does however allow us the opportunity to plan for a brighter future.

Beyond FY 2005-06: Planning for the future

Just as we systematically carried out the “forced reduction” game plan over the past several years, it will be equally as important to have a well thought out game plan for restoring programs and services. In fact, in some ways the challenge we face now will be even more difficult and challenging. There are so many competing needs, including restoration of service levels, employee compensation adjustments, continued building of an adequate reserve to guard against future crises, provision of adequate staffing for departments to fulfill their missions, and technology and facility investments, that we must approach restoration and supplemental funding with care.

Therefore, I am recommending that we use the FY 2005-06 status quo budget as a chance to take a comprehensive look at Humboldt County government and set priorities that will guide us in making choices amongst the many needs for additional funding that may be competing for our resources in the future. My staff proposes to work with the Board and department leaders in the coming months on strategic planning, technology assessment, space and property management, and capital budget development. We propose that we develop a game plan for once again making systematic decisions in allocating the County’s limited resources and reengineering a smarter, more customer friendly and efficient local government for our citizenry.

Continuing Risks

Adopting a “Status Quo” budget, and deferring restoration requests, is also warranted because Humboldt County -- like all local governments throughout California--continues to face uncertainty with regard to a number of pending actions by the State. In particular:

- The State budget: While the Governor’s proposed budget included many positive steps, we are still awaiting passage of a final State budget for 2005-06. This directly affects Humboldt County in a number of ways, including: timing of Vehicle License Fee reimbursement, timing and amount of Juvenile Justice Crime Prevention Act and Rural County Public Safety funding, continuation of Williamson Act Subvention, amount of property tax administration grants, and timing of the end of the second shift of funds to the State for the Educational Revenue Augmentation Fund (ERAF).
- The Potential for Another Special Election: The Governor has indicated his intent to call a special election

for November 2005. Not only does this represent yet another unfunded liability for County governments, but also the subject matter of this special election (the Governor's reform package) includes two measures with potentially striking effects on our ability to conduct business in the future.

- CA LWOMA: One of the measures likely to be on a special election ballot is the California Live Within Our Means Act (CA LWOMA). While the title itself is attractive, and states exactly what the County has done over the last five years, the language in this initiative is flawed and would result in unintended consequences to local governments. This measure flies directly in the face of Proposition 1A, passed by voters in November 2004 to protect local revenues. It gives the Governor the ability to suspend transfers to local governments authorized under a number of previous voter-approved measures, including Proposition 172 (the sales tax for public safety), Proposition 42 (dedication of gas tax to roads), Proposition 63 (mental health services) and realignment funds for public health services. While we are hopeful that work with the Governor's Office and the Legislature can reduce or eliminate consequences to counties, we are truly concerned over the potential for cost shifting we face under this initiative.
- Pension Reform: Another potential topic for either a special election or pending legislation is reform of public pension systems in California. Current proposals could result in a tiered pension system, reducing the ability of Humboldt County to attract experienced professionals from other local agencies. While reform--including the recent Public Employee Retirement System decision to recalculate employer contributions on a 15-year actuarial basis rather than a three-year basis--has the potential to lower costs for Humboldt County, the overall effects are unknown at this time.

The uncertainty surrounding these potential State actions is another reason I am recommending the use of the next several months to set priorities. If all goes well, the County may be positioned to enhance employee compensation and/or to restore additional services and positions at the midpoint of the FY 2005-06 budget. But that remains "a big if" so those costs are not included in the proposed budget before you now.

Highlights of the FY 2005-06 Budget

The 2005-06 spending plan totals \$221.9 million. This amount is \$20.6 million, or 10.2%, higher than the FY 2004-05 budget of \$201.3 million. The budget includes 1,968.99 full-time equivalent positions.

The proposed budget also includes funding to reverse all of the voluntary unpaid work furloughs and pay cuts that were needed to balance the FY 2004-05 budget. A few employees have volunteered to extend their unpaid work furloughs for an additional year, but were not required to do so. In addition, a few departments with outside funding sources were able to reinstate positions held vacant and unfunded in the prior year. Although these restored positions do not show up as an increase in the total number of the County's authorized employee positions, it is an important step forward nevertheless.

The County's General Reserve, which funds County operations and provides essential cash flow during the first six months of the fiscal year until property tax payments are collected in December, has been increased from a dangerously low level of \$100,000 to \$1.0 million.

The Contingency Reserve is the resource from which a number of demands will be funded: any reductions in state funding, negotiated increases in employee salary and benefits, the normal unforeseeable adjustments that are needed during the course of the fiscal year, and any emergency needs that may arise. The proposed budget increases the Contingency Reserve from \$1.2 million in FY 2004-05 to \$2.9 million. The proposed budget increases the Contingency from 0.6% to 1.3% of the total county budget. This is the highest level that the County has been able to set aside as Contingency Reserve since at least FY 1999-00.

Conclusion

I enjoy the opportunity to present a balanced budget which moves Humboldt County toward what look to be brighter years. I will continue to inform your Board in a timely manner of threats and opportunities presented to our County. I look forward to working with you on setting the priorities we will need to use in making the decisions which will face us in the coming months.

I would be remiss if I did not conclude by thanking the many dedicated employees who made this budget possible. As you know, Humboldt County is extremely fortunate with a number of excellent employees who have provided exceptional service throughout the trying times we have experienced. In particular, I would like to thank all department heads and their fiscal staffs for the responsiveness they have shown throughout the budget process, Bonnie DuMond of my office for her tireless devotion during this process, and Clerk of the Board Lora Canzoneri and Board staff Kathy Riccomini and Kathy Hayes for the assistance they have provided

to the County Administrative Office. To all these dedicated employees, we have recently added two more: Assistant County Administrative Officer Stephanie Larsen and Deputy County Administrative Officer Phillip Smith-Hanes. The new format of this budget is the direct result of efforts by Stephanie and Phil, and I would like to thank them for the improvements they have made in their short tenures with Humboldt County.

Finally, thank you to the Board members for your patience, guidance and wisdom, and the public for your interest in seeing that Humboldt County receives the best governance possible within the resources we have.

Sincerely,

LORETTA NICKOLAUS
County Administrative Officer

Adopted Budget Overview

On July 19, 2005, the Board of Supervisors adopted Humboldt County's budget for FY 2005-06. The total amount from the State Controller's Schedule 1, required by the County Budget Act of 1985, is \$223,310,460, which includes a \$900,000 General Reserve. However, this \$900,000 is also counted as an expenditure in the General Fund (as a transfer out in the Contributions budget, 1100 199), so the more accurate figure is the grand total of Expenditure Appropriations, \$222,410,460.

Even this amount, however, excludes some of the total picture. Internal Service Funds and Enterprise Funds are not reported on the State Controller's required schedules. Some of these funds have negative expenditure amounts (contributions to fund balance), so the total expenditure amount reflective of all County funds is \$221,900,146.

Of this \$221,900,146, the County's primary operating fund, the General Fund, accounts for \$68,473,627. Since many grant programs are included in the General Fund, the budget over which the Board of Supervisors has true discretion totals only \$38,867,498. Thus, the primary decision-makers in setting County policy have effective control over a mere 17.5% of the total financial resources flowing through the County coffers.

You can see this reflected in the pie charts in the Trends and Graphs section, beginning on page 16. A comparison of Chart I on page 16 with Chart IV on page 19 reveals that Health & Human Services and Public Works (County Road funds) account for two-thirds of the County's total budget, but only 12% of the discretionary General Fund spending. Many of these programs are simply mandated by State and Federal authorities, a fact demonstrated by Chart II on page 17, which shows that 62% of the County's total income comes from other government bodies.

The State's adopted budget for FY 2005-06 budget included funding to repay the amounts owed to local jurisdictions due to the State's suspension of the vehicle license fee (VLF) offset during the first three months of FY 2003-04. The County lost over \$2.6 million in FY 2003-04 because of the VLF offset suspension. In order to compensate for this loss, the County's Motor Pool Fund loaned the General Fund a total of \$1,652,899 in FY 2003-04. This surprise funding reimbursement has added approximately \$2.6 million to Humboldt County's General Fund revenues. Because State budget deliberations were still pending at the time the County's budget was adopted, this amount has not been included in the budgeted revenues described above.

This example illustrates again that California local governments are financially at the mercy of state government. More information about the history of the state/local fiscal relationship is available on page 21.

Understanding the Humboldt County Budget for FY 2005-06

In an effort to provide a more informative, reader-friendly document, we have redesigned the format of Humboldt County's budget. We hope that these changes will enable both County residents and County government employees to have better information about the costs of County government and the services received for those expenditures. To help you, the reader, in understanding this new budget format, please review the information in this Reader's Guide section.

Organization of the Budget Document

This budget contains the following sections:

Table of Contents

The Table of Contents is a quick reference to the page on which you can find specific sections of the budget or budget unit details.

County Administrative Officer's Budget Message

The County Administrative Officer is the official charged with presenting the annual budget to the Board of Supervisors for their consideration and adoption. Her budget message provides an executive summary overview of Humboldt County's budget for FY 2005-06 and the reasoning behind the recommendations she made to the Board.

Adopted Budget Overview

This one-page summary presents relevant facts about the adopted budget.

Reader's Guide

This section attempts to explain the budget document in an easy-to-understand manner.

About Humboldt County

Information about the County's location, population, economy, and government structure is presented, together with an organizational chart for the entire County government.

Trends & Graphs

The budget document includes a number of graphical representations that help explain where our money comes from, where it's going, how County resources relate to other governments, and how these figures are changing over time.

Directory of County Officials

A quick reference guide to "Who's Who" in Humboldt County government. Department heads are listed as of July 1, 2005; some changes have occurred prior to publication of the final budget book.

County General Fund Summary

Each of the County's various Funds is presented in a summary table which shows fund balance and trends. Specific Funds are presented in the budget unit detail section, but the summary table for the County's largest and most comprehensive Fund, the General Fund, is presented in a separate section.

Budget Unit Details

Each of the County's budget units (or, in certain cases, groupings of budget units) is detailed as to revenues, expenditures, staffing levels, purpose of the budget unit, major budget changes, accomplishments and objectives. For ease of reference, the budget units have been separated into eleven

Reader's Guide

functional groups, separated by quick-reference tabs. Please refer to the Table of Contents or Index to find a specific budget unit.

Budget units are also aggregated at the level of County departments, with summary tables and organizational charts presented.

Personnel Allocation by Budget Unit

The Personnel Allocation table is a comprehensive listing of the specific job classifications and number of full-time equivalent staff allocated to each budget unit.

Glossary of Budget Terms

To further assist the reader in understanding the budget, the Glossary contains definitions for commonly used budgetary terms.

Indices

Finally, for ease of reference, the budget unit detail sections of the document are indexed in two ways: alphabetically by name, and numerically by account code.

Understanding the Budget Unit Details

Heading

The page header for a budget unit will give the name of the budget unit, the account number for the budget unit, and the department head responsible for administration of the budget unit.

Table

Each budget unit detail begins with a table which presents summary budget information, as follows:

Fund In the upper left corner of the table, you will see the Fund to which the budget unit belongs.

Revenues Down the left side of the table, you will see the types of revenues on which this budget unit relies for support, including any contribution from the General Fund or the general revenues of another fund.

Expenditures Below the revenues are the categories of expenditure for the budget unit. In a change from prior years, this budget does not detail each individual line item of expenditure. This information is entered into the County's financial accounting software, and a paper copy is available by contacting the Clerk of the Board, but category-level presentation of expenditures provides sufficient detail for most purposes.

Staffing The total number of allocated positions for the budget unit is presented. Additionally, extra help funding has been converted to full-time equivalent staffing to present a comprehensive picture of the staffing resources devoted to the budget unit.

2003-04 Actual Moving to the right, the next column presents the actual dollar or staffing figures achieved at the end of the 2003-04 fiscal year (the most

Reader's Guide

recent year-end results available when the proposed budget was prepared).

2004-05 Adjusted The next column provides the budget that was current (adopted, plus any amendments) as of budget preparation on May 13, 2005. It is these numbers to which the 2005-06 budget is compared.

2004-05 Actual The middle column in the table shows the actual year-end results as of June 30, 2005. The printing of this adopted budget book was delayed so that these figures could be included.

Request The next column to the right indicates the funding/staffing request that the department submitted for FY 2005-06.

Adopted This column presents the funding/staffing for the budget unit approved by the Board of Supervisors on July 19, 2005.

Increase/ (Decrease) Finally, you will see a depiction of the difference between this year's funding/staffing for the budget unit and the totals for FY 2004-05 (the adopted column minus the adjusted column).

Purpose

Following the table of budgetary information, information is provided as to the reason each budget unit exists and the services it provides.

Major Budget Changes

Next, information is presented as to the major changes in the budget from FY 2004-05 to FY 2005-06. The changes shown are intended to convey only the most significant increases or decreases from the prior year's budget. Therefore, totaling the major budget changes will in most cases yield a different number from the change at the expenditure category or revenue type level presented in the Increase/(Decrease) column of the budget unit summary table. A line item change is considered "major" if it represents an increase or decrease of at least \$1,000 (in some large budget units, only those changes of a larger amount, such as \$10,000, are listed).

However, the fixed assets section of Major Budget Changes is treated differently. Rather than showing the incremental increase or decrease from the prior year, the fixed assets section will detail each fixed asset purchase that is included in the recommended budget.

Program Discussion

Following the list of major budget changes, each budget unit has a narrative which discusses what types of services the department or program provides, provides additional detail on major budget changes, describes new programs or the elimination of existing programs, and notes legislative changes affecting the budget unit, the prospects for future funding and other relevant information.

2004-05 Accomplishments

2005-06 Objectives

Finally, to show what is gained by investment of resources in a budget unit, each budget unit lists up to five significant accomplishments achieved during FY 2004-05 and up to five objectives planned for attainment in FY 2005-06.

About Humboldt County

History

Humboldt County, named to honor the German explorer and naturalist Baron Alexander von Humboldt, was incorporated from part of Trinity County in 1853 and enlarged in 1875 with the addition of the area formerly known as Klamath County.

Geography

Humboldt County is located on California's northern Pacific Coast. The southern border of the County is located 225 miles north of San Francisco, the closest major metropolitan city. The County is bordered on the north by Del Norte County, on the east by Siskiyou and Trinity counties, on the south by Mendocino County and on the west by the Pacific Ocean. The County encompasses 2.3 million acres, 80 percent of which is forestlands, protected redwoods and recreation areas. The region is primarily mountainous, except for a plain surrounding Humboldt Bay where the area's largest urban centers are located.

U.S. Highway 101 links the County to the rest of coastal California to the south and the Oregon Coast to the north. Highway 299 links the County to Interstate 5 to the east. The County's regional airport in McKinleyville has daily flights to San Francisco, Sacramento, Los Angeles, Portland and Seattle.

Climate

Humboldt County is an area of moderate temperatures and considerable precipitation. Temperatures along the coast vary only 10 degrees from summer to winter, although a greater range is found over inland areas. Temperatures of 32 degrees

or lower are experienced nearly every winter throughout the area, and colder temperatures are common in the interior. Maximum readings for the year often do not exceed 80 on the coast, while 100 degree plus readings occur frequently in the mountain valleys.

In most years, rainfall is experienced each month of the year, although amounts are negligible from June through August. Seasonal totals average more than 40 inches in the driest area, and exceed 100 inches in the zones of heavy precipitation. Because of the moisture and moderate temperature the average relative humidity is high. Largely as a result of the proximity to the cool Pacific Ocean, the adjoining coastal area has one of the coolest, most stable temperature regimes to be found anywhere. With increasing distance from the ocean, the marine influence is less pronounced, and inland areas experience wider variations of temperature and lower humidity.

The climate has several impacts on local economic development. In the winter months when the rain is its heaviest, employment is at its lowest. Early morning and late afternoon fog is also present along the coastline for parts of the year, which can hamper air travel.

Scenery

The climate is ideal, however, for growth of the world's tallest tree: the coastal redwood. Though these trees are found from southern Oregon to the Big Sur area of California, Humboldt County contains the most impressive collection of *Sequoia sempervirens*. The County is home to Redwood National and State Parks, Humboldt Redwoods State Park (The Avenue of the Giants), and a number of other groves of these magnificent trees.

About Humboldt County

Humboldt County also contains more than 40 parks, forests, reserves and recreation areas, numerous beaches, six wild and scenic rivers, and an impressive collection of Victorian structures from the early days of County history. The County has been judged “America’s Most Scenic Rural County” by the U.S. Department of Agriculture, and was named “One of the World’s Top Ten Great Places” by *National Geographic Traveler* magazine.

Population

The 2000 Census population of Humboldt County was 126,518. According to the California Department of Finance, the population as of January 1, 2005, was 131,334.

The County has seven incorporated cities ranging in size from 323 to 26,381 persons. Slightly less than half of the County’s residents live in incorporated communities, while 59 percent of County residents live in the area surrounding Humboldt Bay. This area includes the cities of Arcata, Ferndale, Fortuna and Eureka, and the unincorporated community of McKinleyville.

In terms of regional population trends, the chief growth areas of the County are around the communities of McKinleyville and Garberville, and the cities of Arcata and Fortuna.

Education

Humboldt County is home to two major institutions of higher education. Humboldt State University, a campus of the California State University system, is located in Arcata. College of the Redwoods, the community college for

California’s North Coast, has a campus south of Eureka and instructional sites in Arcata and Hoopa.

Employment

According to the Labor Market Information Division of California’s Economic Development Department, the largest employment sectors in Humboldt County for 2002 were:

Government	26.7%
Trade, Transportation & Utilities	19.3
Educational & Health Services	12.4
Leisure & Hospitality	10.8
Manufacturing	8.2
Professional & Business Services	6.6
Financial Activities	4.0
Other Services	4.0
Construction	3.8
Agriculture	2.2

A recent report from Humboldt State University lists the largest employers in the County as:

County of Humboldt	1,972 FTE
Humboldt State University	1,454 FTE
St. Joseph Health System	947 FTE
The Pacific Lumber Company	914 FTE
Eureka City Schools	592 FTE

Government

The County is governed by a five-member Board of Supervisors, elected by district for four-year terms. The

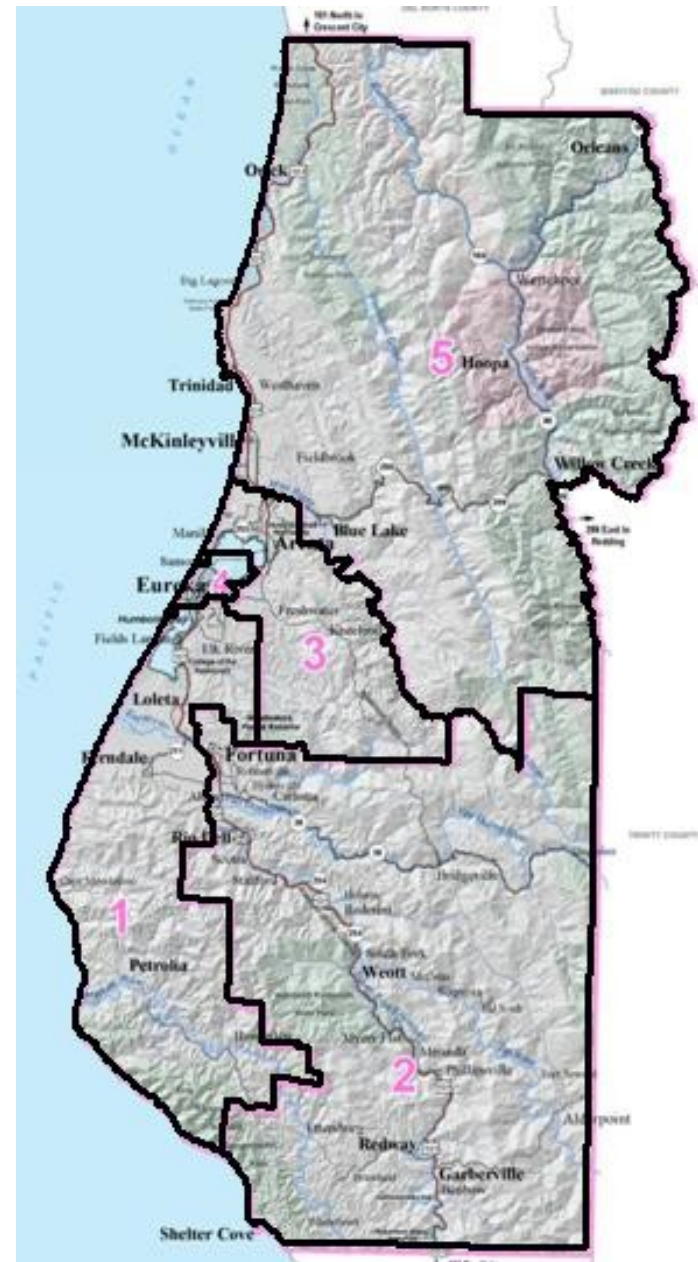
About Humboldt County

County Administrative Officer manages the activities of the County's departments and the County Counsel provides legal counsel to the Board of Supervisors. Both officers are hired by and directly responsible to the Board of Supervisors. Other Elected Officials include the Assessor, Auditor-Controller, Clerk-Recorder, Coroner, District Attorney, Sheriff, and Treasurer-Tax Collector.

The County provides a wide range of services to its residents, including police protection, medical and health services, library services, judicial institutions and supporting programs, road maintenance, airport service, parks and a variety of public assistance programs. The County also operates recreation and cultural facilities in the unincorporated areas of the County.

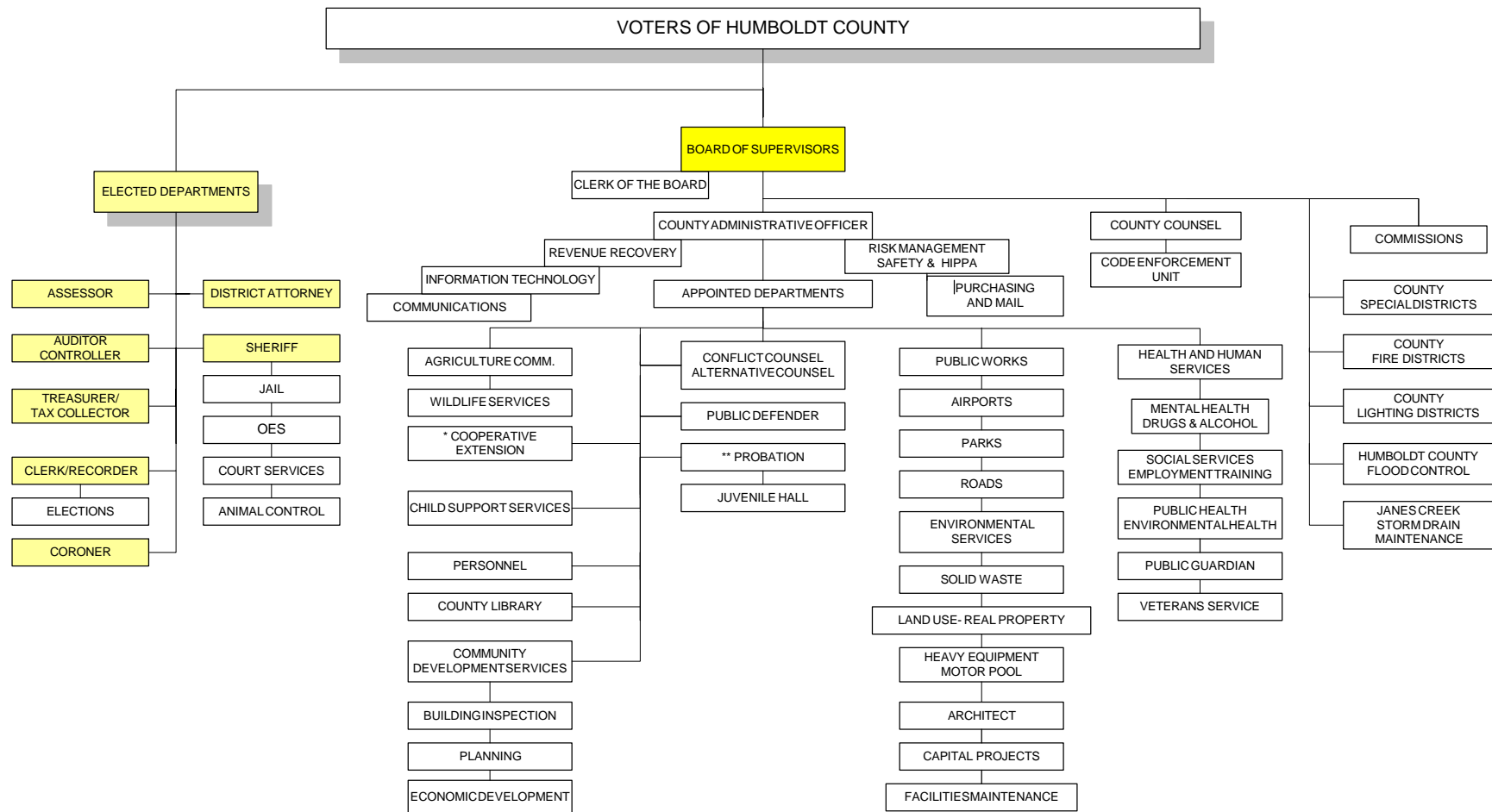
Many of the County's functions are required under County ordinances, or by State or Federal mandate. State and federally mandated programs, primarily in the social and health service areas, are required to be maintained at certain minimum levels, which limits the County's control.

County supervisorial districts are shown on the map at right.



About Humboldt County

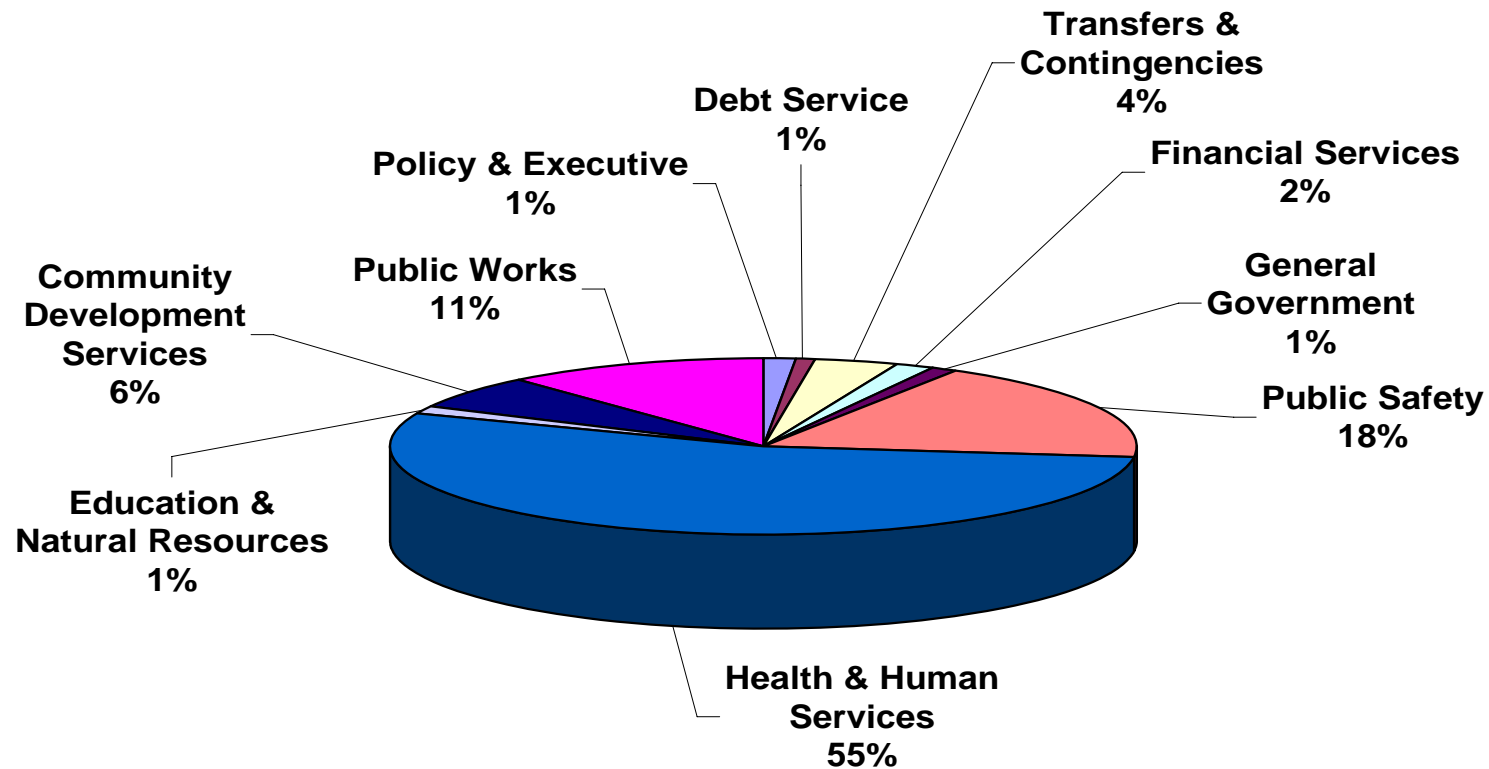
Organizational Chart:



* DEPARTMENT HEAD APPOINTED BY STATE
 ** DEPARTMENT HEAD APPOINTED BY COURTS

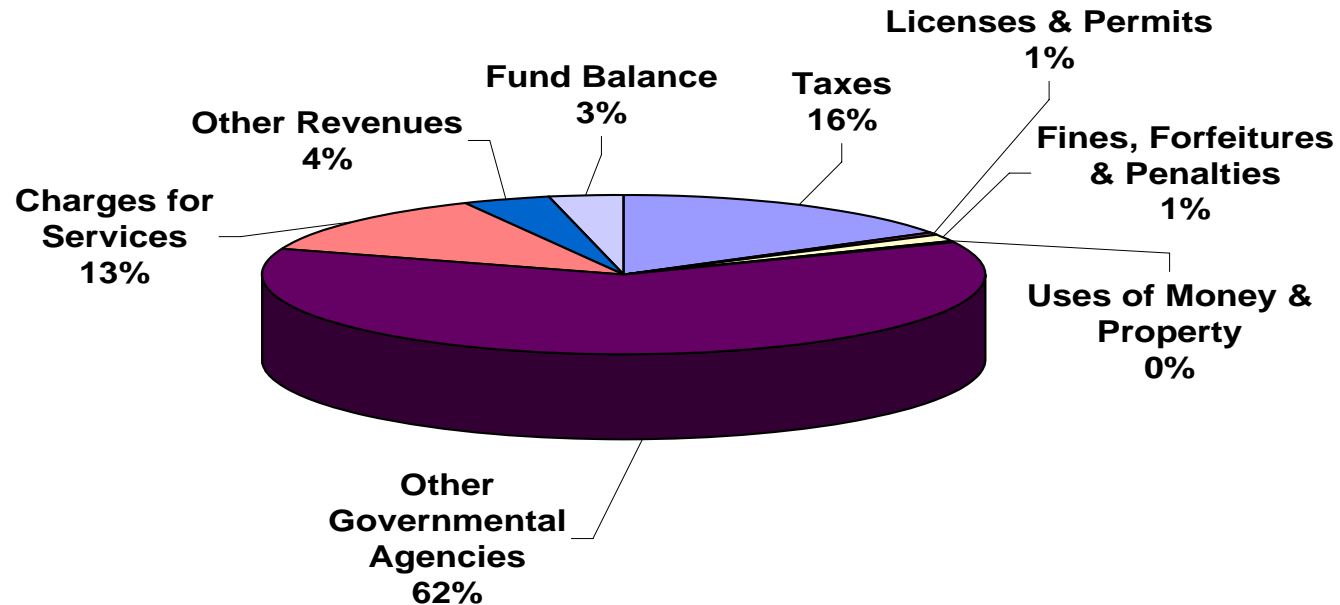
Expenditure by Function - All Funds

Humboldt County's total FY2005-06 budget of \$221.9 million is distributed in accordance with the expenditure categories listed on **Chart I**.



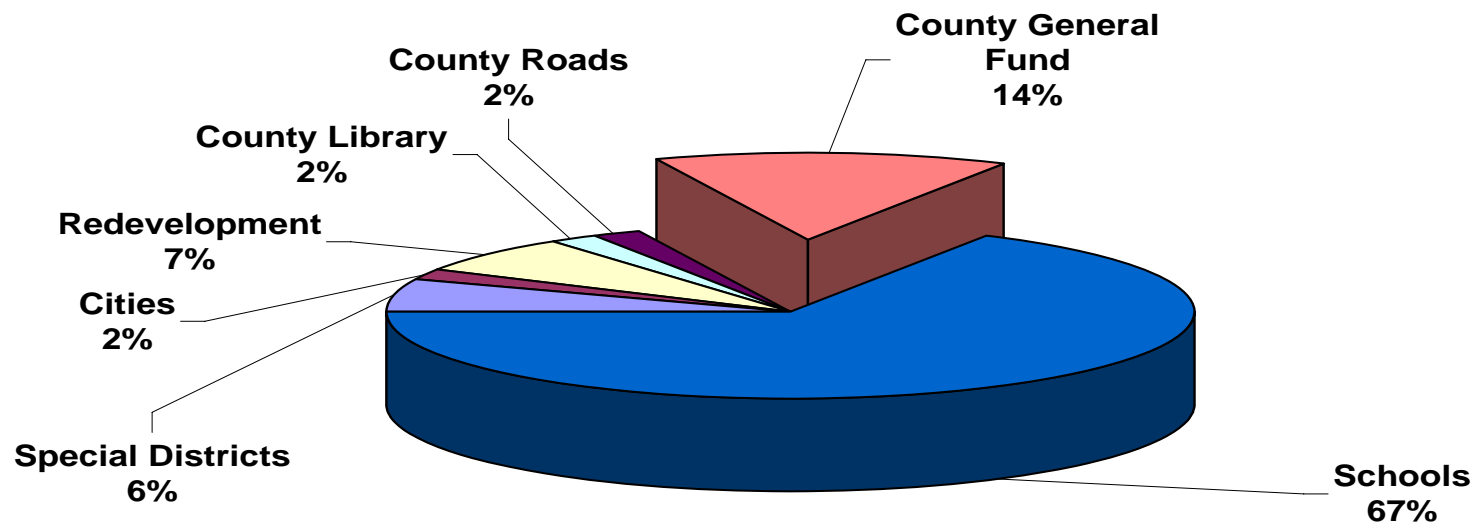
Revenue by Source - All Funds

Chart II illustrates the sources of revenue for all funds. Within the overall budget, the largest source of funding comes from the State and Federal governments. Most of these funds are restricted for specific purposes, and the Board of Supervisors has little discretion regarding their allocation to individual programs.



Property Tax Distribution

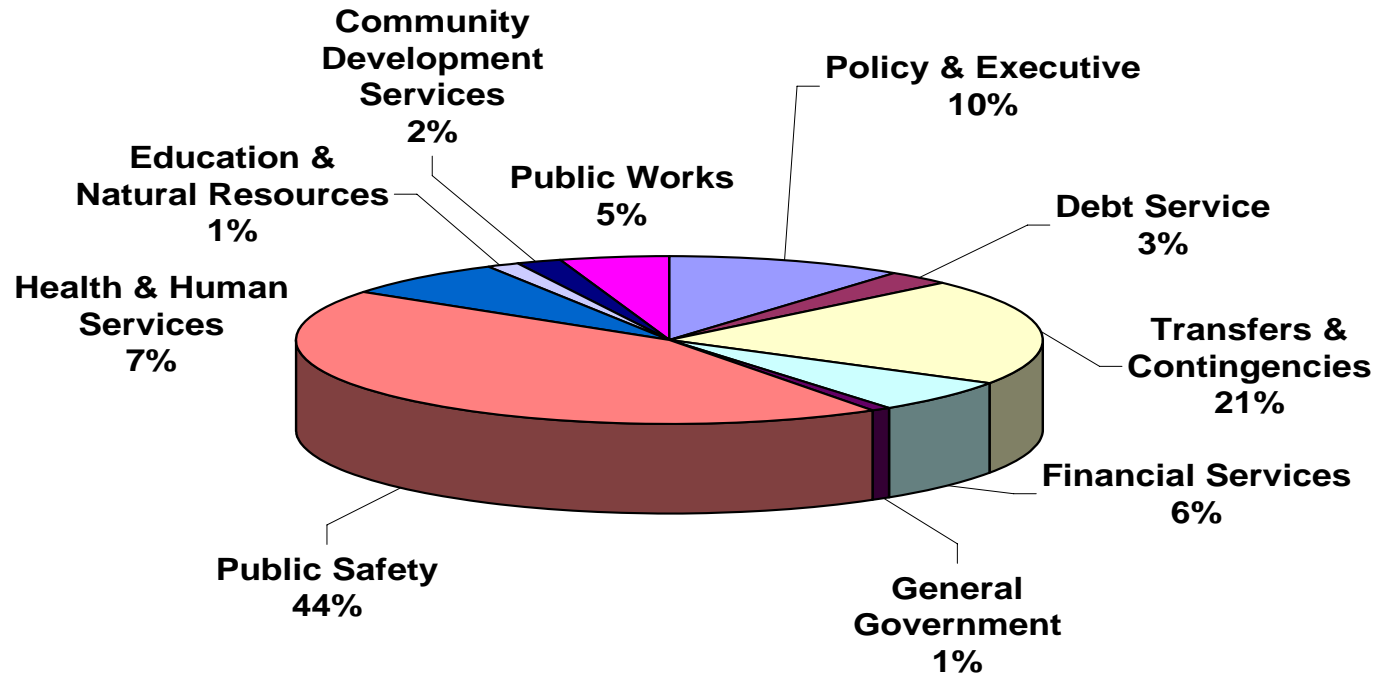
Although the County assesses, collects and administers property taxes, each dollar of property tax paid by a Humboldt County landowner is shared with various other governmental jurisdictions. Two-thirds of every property tax dollar benefits our school districts as illustrated in **Chart III**.



Source: Humboldt County Treasurer-Tax Collector

County General Fund Breakdown by Function

The distribution of the \$38.87 million of discretionary County General Fund is illustrated in **Chart IV**.



Directory of Humboldt County Officials

Elected Officials

BOARD OF SUPERVISORS

- First District James R. Smith
- Second District..... Roger M. Rodoni, Chair
- Third District..... John S. Woolley, Vice-Chair
- Fourth District..... Bonnie J. Neely
- Fifth District..... Jill K. Geist

AUDITOR-CONTROLLER..... Michael J. Giacone

ASSESSOR..... Linda Hill

CLERK/RECORDER/REGISTRAR OF VOTERS

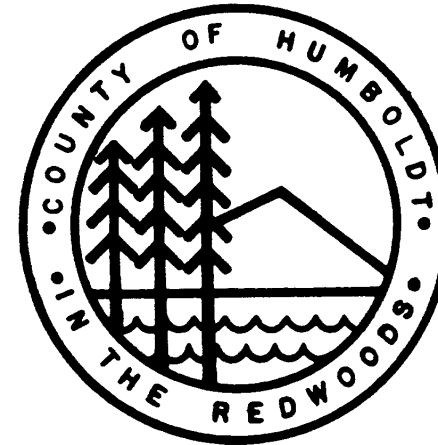
..... Carolyn R. Cnich

CORONER-PUBLIC ADMINISTRATOR..... Frank J. Jäger

DISTRICT ATTORNEY Paul V. Gallegos

SHERIFF..... Gary Philp

TREASURER-TAX COLLECTOR..... Stephen A. Strawn

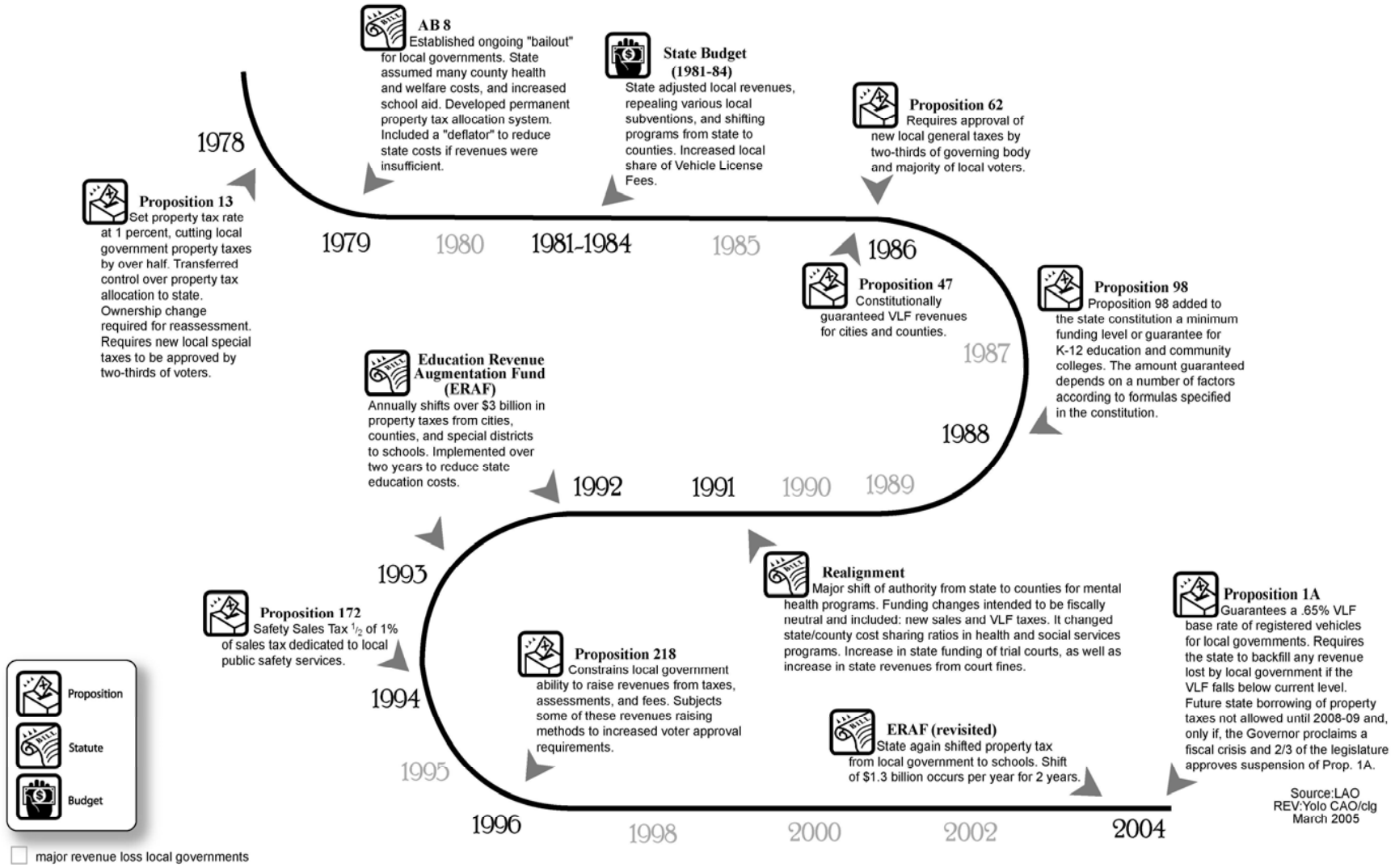


Appointed Officials

- Agricultural Commissioner..... Heidi Wong
- Chief Probation Officer..... William Burke
- Child Support Services Director Jim Kucharek
- Conflict Counsel Glenn L. Brown
- Cooperative Extension Director*..... Gary Markegard
- County Administrative Officer Loretta A. Nickolaus
- County Counsel..... Tamara C. Falor
- Director of Community Development Services... Kirk A. Girard
- Director of Health and Human Services Phillip R. Crandall
- Director of Library Services Carolyn M. Stacey
- Personnel Director Richard A. Haeg
- Public Defender James Steinberg
- Public Works Director Allen W. Campbell

* Not a County employee

Major Milestones: 25 Years of State-Local Fiscal Relationship



Source: LAO
REV: Yolo CAO/clg
March 2005

County General Fund

	2002-03	2003-04	2004-05	2005-06
1100 - General Fund	Actual	Actual	Actual	Adopted
Beginning Fund Balance	\$6,488,195	\$3,314,328	\$2,510,048	\$9,965,207
Fund Revenues				
General Purpose Revenue	\$30,569,844	\$32,013,868	\$37,570,744	\$33,677,543
Program-Specific Revenue	29,971,946	29,386,136	28,986,241	29,606,129
Total Revenues	\$60,541,790	\$61,400,004	\$66,556,985	\$63,283,672
Expenditures	\$63,715,657	\$62,204,284	\$59,101,826	\$68,473,627
Ending Fund Balance	\$3,314,328	\$2,510,048	\$9,965,207	\$4,775,252

The above chart shows a snapshot of the County General Fund's fiscal health over the last several years. Despite painful budget cuts, the County General Fund was spending more each year than it received in revenue, leading to a steadily declining beginning fund balance. Note that total expenditures actually declined by \$4.1 million annually over the two-year period from FY 2002-03 to FY 2004-05, despite steadily increasing employee benefits costs. Over 200 positions were eliminated during this period, and employees received no cost-of-living salary adjustments. General Purpose Revenue in FY 2004-05 includes \$2.6 million for the State's reimbursement of vehicle license fee revenue borrowed in FY 2003-04, although the revenue was actually received in July 2005.

	2003-04	2004-05	2004-05	2005-06	2005-06	Increase/ (Decrease)
1100 - General Fund	Actual	Adjusted	Actual	Request	Adopted	
Revenues						
Taxes	\$18,863,745	\$16,446,975	\$28,619,233	\$29,406,708	\$29,406,708	\$12,959,733
Use of Money & Property	118,644	26,125	254,371	131,000	131,000	104,875
Other Gov't Agencies	8,484,132	10,507,500	3,511,288	910,466	910,466	(9,597,034)
Charges for Services	4,383,333	2,764,552	2,626,862	2,980,969	2,980,969	216,417
Other Revenues	164,014	2,418,200	2,558,989	248,400	248,400	(2,169,800)
Total General Fund Revenues	\$32,013,868	\$32,163,352	\$37,570,743	\$33,677,543	\$33,677,543	\$1,514,191
Expenditures						
Total Expenditures	\$0	\$0	\$0	\$0	\$0	\$0

Purpose

This budget unit is comprised of a variety of revenues that are deposited into the County’s General Fund, the County’s primary source of discretionary revenue.

➤ \$45,518 Increase in transient occupancy tax revenues.

➤ (\$210,004) Decrease in estimated timber yield tax revenues.

Major Budget Changes

➤ (\$2,517,821) Decrease in state motor vehicle in-lieu taxes.

Revenues

➤ \$873,931 Increase in property tax and property tax-related revenues.

➤ (\$137,500) Increase in federal payments in-lieu of taxes (PILT) on public lands.

➤ \$402,214 Increase in estimated sales tax revenues.

➤ \$690,931 Increase in A-87 cost reimbursement revenue.

- (\$336,824) Elimination of one-time transfers from the Building Maintenance, Central Services, and ADA Trust Funds.
- (\$2,300,000) Elimination of one-time transfer from the County's General Reserve.

Program Discussion

The majority of the County's revenues are program-specific; that is, the revenues received are dedicated for a specific purpose. In contrast, the County's General Purpose Revenues are the only discretionary revenues over which the Board of Supervisors has control. Even though General Purpose Revenues comprise only 18.0% of the total County budget, they are the primary source for funding core County departments such as the Board of Supervisors itself, the Assessor, the Treasurer-Tax Collector's Office, the Sheriff, the District Attorney, and the Agricultural Commissioner/Sealer of Weights and Measures. In addition, a significant portion of General Fund revenues are contributed to the Department of Health and Human Services, in accordance with maintenance-of-effort requirements for Health, Mental Health, and Social Services programs.

Because General Purpose Revenues are discretionary in nature, there are a wide variety of competing demands upon its use. In recent years, the County's General Fund has been strained almost to the breaking point due to State raids upon County property tax revenues, elimination of State cost reimbursements for State-mandated programs, and unpredictable shifts of funds to the State, such as the three-month gap in vehicle license fee revenue that occurred at the beginning of FY 2003-04. In addition to unilateral State

actions that have affected the County's treasury, other General Purpose Revenues have remained stagnant or even declined, due to federal actions and the County's general economic situation.

Total General Fund revenues are projected to be \$33,677,543 in FY 2005-06. This represents a decrease of approximately \$3.9 million from FY 2004-05. However, this figure is misleading. In order to balance its budget in FY 2004-05, the County relied on approximately \$2.6 million in one-time transfers from various reserves and trust funds. These transfers will not be repeated. Therefore, a more accurate measure of the change in General Purpose Revenues would be a decrease of approximately \$1.3 million.

The single-largest factor in that growth is an estimated \$874,000 increase in property tax revenue, based upon a record-setting 10% increase in the County's property tax roll. The County General Fund retains only 14% of all property taxes it collects. Another 2% (not included in the figure shown above) is dedicated to County Road Funds and to the County Library System. The remainder is transferred to the State for K-12 education, to cities, and to special districts.

In order to balance its own budget, the State enacted a shift of property tax funds from various local jurisdictions beginning in FY 2004-05. The County lost over \$1.0 million of property tax revenue in FY 2004-05 due to this shift, dubbed "ERAF III" after a similar shift of funds in the early 1990's that the State labeled the "Education Revenue Augmentation Fund" because the shifted revenues were dedicated to schools. Prior to the ERAF II shift, Humboldt County's General Fund retained 15.5% of total property tax revenues. Local government jurisdictions forcefully objected to ERAF III. Government officials from across the state negotiated with the Governor's

888 - General Purpose Revenues

Loretta Nickolaus, County Administrative Officer

Administration to place Proposition 1A, a constitutional amendment to protect local government revenues, on the ballot in November 2004. Voters overwhelmingly passed Proposition 1A. Because of Proposition 1A, FY 2005-06 is expected to be the last year of the ERAF III shift of property tax funds to the State.

Timber yield taxes increased from \$1.08 million in FY 2003-04 to \$1.31 million in FY 2004-05. The timber yield tax was conservatively projected at \$1.1 million for FY 2005-06 due to the slower pace of State approval of timber harvest plans.

Other revenue sources, such as the transient occupancy tax and sales tax, tend to be highly variable from year-to-year.

The State's adopted budget for FY 2005-06 budget included funding to repay the amounts owed to local jurisdictions due to the State's suspension of the vehicle license fee (VLF) offset during the first three months of FY 2003-04. The County lost over \$2.6 million in FY 2003-04 because of the VLF offset suspension. In order to compensate for this loss, the County's Motor Pool Fund loaned the General Fund a total of \$1,652,899 in FY 2003-04.

This surprise funding reimbursement has added approximately \$2.6 million to Humboldt County's General Fund revenues. Because State budget deliberations were still pending at the time the County's budget was adopted, this amount has not been included in the budgeted revenues shown above.

990 - Contingency Reserve

Loretta Nickolaus, County Administrative Officer

	2003-04	2004-05	2004-05	2005-06	2005-06	Increase/
1100 - General Fund	Actual	Adjusted	Actual	Request	Adopted	(Decrease)
Revenues						
General Fund Support	\$0	\$1,209,798	\$0	\$2,922,847	\$2,922,847	\$1,713,049
Total Revenues	\$0	\$1,209,798	\$0	\$2,922,847	\$2,922,847	\$1,713,049
Expenditures						
Supplies & Services	\$0	\$1,209,798	\$0	\$2,922,847	\$2,922,847	\$1,713,049
Total Expenditures	\$0	\$1,209,798	\$0	\$2,922,847	\$2,922,847	\$1,713,049

Purpose

This General Fund Contingency Reserve budget provides funds to meet unforeseen expenditures in countywide operating budgets.

Major Budget Changes

Services & Supplies

- \$1,713,419 Increase in County General Fund Contingency Reserve

Program Discussion

The Reserve for Contingencies budget is for unanticipated requirements occurring in all County operations during the fiscal year. While state statutes provide that up to 15% of the total of all other appropriations can be placed in reserve, the amount historically reserved for the County’s budget has been at a much lower level.

The FY 2005-06 adopted budget sets the contingency reserve at \$2,922,847, or 1.3%, of the County’s operating budget. This will provide a hedge against anticipated adverse state and federal budget actions, fund employee salary and benefits adjustments, and replenish the reserve.

Fiscal Year	Adopted Budget	Contingency	As % of Budget
2001-02	\$ 196,334,106	\$ 2,453,091	1.2%
2002-03	\$ 208,647,694	\$ 1,870,543	0.9%
2003-04	\$ 212,670,073	\$ 854,871	0.4%
2004-05	\$ 201,255,779	\$ 1,209,798	0.6%
2005-06	\$ 219,926,414	\$ 2,922,947	1.3%

In accordance with the recommendations of the Budget Task Force, a total of \$100,000 is being set aside for future equity adjustments for job classes that are significantly below their counterparts in other jurisdictions and thereby represent difficulties for Personnel to recruit well-qualified applicants. A total of approximately \$3.0 million has been set aside as a true, albeit still low, contingency reserve to provide protection against unforeseen circumstances.

The zeroes shown in the “Actual” columns for FYs 2002-03 and 2003-04 can appear misleading. To avoid double-counting of expenditures, the Auditor-Controller’s Office reduces the budgeted amount in the Contingency Reserve and adds to the budgeted amount in the new budget unit when a transfer is made. A more illustrative history of transfers from the Contingency Reserve is shown below:

Fiscal Year	Original Contingency Reserve	Total Amount Transferred
2001-02	\$2,453,091	\$756,791
2002-03	\$1,870,543	\$928,767
2003-04	\$854,871	\$155,862
2004-05	\$1,209,798	\$250,029