NAPA COUNTY
5-YEAR GENERAL FUND FORECAST
PREPARED IN FISCAL YEAR 2019-20 FOR FISCAL YEAR 2020-21 THROUGH 2024-25

Napa County has a long history of financial stability and fiscal prudence, which results in stability of the services we provide. The **5-year General Fund Forecast** (5-year Forecast) is one of the tools used to support fiscal prudence. The **5-Year Forecast** is updated annually and is intended to be used in conjunction with the County's adopted **Strategic Plan**, the five-year **Strategic Financial Plan**, and the annual **Budget Policies** to guide the development of the annual Recommended Budget, as well as any mid-year budget adjustments.

The purpose of the 5-year Forecast is to evaluate current and potential future fiscal conditions to guide policy and programmatic decisions. Forecasts present estimated information based on past, current, and projected financial conditions to help identify future revenue and expenditure trends that may have an immediate or long-term influence on government policies, strategic goals, or community services.

The Government Finance Officers Association (GFOA) states that "An effective forecast allows for improved decision-making in maintaining fiscal discipline and delivering essential community services." It recommends that governments forecast major revenues and expenditures several years into the future and that these forecasts be regularly monitored and periodically updated.

The 5-Year Forecast provides the Board with a representation of the General Fund outlook and is based on high-level assumptions. The projections are based on continuing the existing level of service, and known variables, while factoring in some new costs to address some of the Board's highest priorities. The figures provided in the **5-Year Forecast** are high-level assumptions, and projected numbers are intended to show general trends and are not intended to be preliminary budget figures.

Forecasting Methodology:

Given all the uncertainties, forecasting revenues and expenditures a number of years into the future is a challenging undertaking at best. Future years' projections are based on the Adopted Budget for FY 2019-20 General Fund revenue and expenditures, which will vary from actual current year revenues and expenditures. In addition, a number of assumptions are made about what will happen over the next five years including inflation rates, state budgets, state law changes, negotiations with bargaining groups, and economic conditions. This forecasting methodology does not include any capital improvement projects, insurance proceeds, or Excess Educational Revenue Augmentation Fund (ERAF).

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In light of the complexities of revenue and expenditure projections, staff is providing a baseline forecast scenario for consideration, then a sensitivity analysis to show how a 1% or 2% increase or decrease in revenues would impact this baseline.

Regional Economy:

Because many of the General Fund revenues in Napa County are impacted to varying degrees by changes in the regional and even national economy, staff is providing some analysis by economists familiar with California and the North Bay to provide context for the assumptions used in the 5-Year Forecast.

The current period of economic expansion has been longer than any other period of growth since the Great Depression. Economists, including Christopher Thornberg of Beacon Economics, report that despite stressors on both the national and California economy, the imbalances that would push the economy into a downturn don't exist. Based on the data analyzed, Thornberg expects the current growth cycle to continue through 2021. He goes on to note that shortages in the housing supply continue to provide challenges in California.[1] Sonoma State Economist Robert Eyler stated that "the regional economy is very much driven by global and national forces and the idea that this region (North Bay) will recess on its own is not easy to believe."[2]

Baseline forecast and assumptions:

The baseline forecast assumes the existing level of service, while assuming some capacity to provide additional funding to begin addressing the Board's highest priorities. Consistent with Board policy, the baseline forecast also assumes that outside resources will increase at the current pace to continue to fund program services, and there is no incremental encroachment on the General Fund. The baseline includes conservative revenue estimates and increased annual operating costs for the operation of the replacement jail beginning in FY 2021-22 estimated at $3.5 million.

The baseline forecasts are built on the adopted budget for FY 2019-20[3] and include an estimate of available fund balance as described below.

As a best practice, Napa County budgets allocated positions based on the assumption that all positions will be filled for the entire year. The actual expenditures show that General Fund salary savings has averaged 3.74% annually since 2012-13. Therefore, the forecast assumes 3%

[1] Beaconomics Winter 2019/20 forecast, Beacon Economics, https://beaconecon.com/publications/beaconomics/

[2] "Slowdown, but no recession ahead for San Francisco North Bay in 2020,", North Bay Business Journal, December 31, 2019, https://www.northbaybusinessjournal.com/opinion/10451636-181/slowdown-but-no-recession

[3] Since Excess Educational Reserve Augmentation Fund (ERAF) is not included in the adopted budget, it is not included in these forecasts.

of salary and benefits to be available each year as salary savings to fund the budget for the following year. Prior usage of Napa County's contingency fund has averaged 25% of the appropriated amount leaving approximately 75% of the contingency fund unspent. Based on this usage, the forecast assumes 50% of the contingency fund to remain unspent and thus available to fund the budget the following year. Projecting the available fund balance in this manner is very conservative, and does not make any assumptions for revenue in excess of budget, or expenditure savings in services and supplies or transfers to other funds, which are more volatile. Though the forecasts assume there will be a budget surplus each year, the available fund balance for the next year is based on the assumptions above, the projected surplus is not added to this figure.

Staff has reviewed historical revenue and expenditure trends, and has made conservative estimates based on those trends. Specific key assumptions and data sources are noted below.

Revenue projections:

Revenue growth is assumed to remain relatively stable and assumptions take into account the known statutory changes that will impact specific revenue categories as follows:

- Secured Property Taxes are based on the 2019-20 extended tax roll with a 4% growth assumption for years 1-3 and a 2% growth assumption for years 4 and 5.[4] These projections are supported by data provided by the County Assessor.
- Unsecured Property Taxes are based on the 2019-20 extended tax roll with a 2% growth assumption for all years. These projections are supported by data provided by the County Assessor.
- Redevelopment related property tax distributions are based on the 2019-20 adopted budget with 4% growth assumption for years 1-2. These funds will become part of the Secured and Unsecured Property taxes when the Redevelopment Agency related apportionments sunset in 2022-23.
- Property Taxes-Vehicle License Fee Swap projections are based on the 2019-20 adopted budget with 4% growth assumption for all years.
- Supplemental Property Tax projections are based on the 2019-20 adopted budget with 2% growth assumption for all years.
- All Prior year property taxes projections assume no growth.
- Sales Tax is based on 2018-19 actual receipts with 3% growth assumed per year. These projections are supported by data provided by HdL Tax Consultants.
- Transient Occupancy Tax is based on 2018-19 actual receipts with 2% growth assumed per year.
- All other discretionary revenues are based on 2019-20 adopted budget with 2% growth assumed per year.

[4] In addition, the assumptions move the funds that currently go to Redevelopment Agency related apportionments to Secured and Unsecured Property tax in FY 2022-23.

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Expenditure projections:

The projections assume existing levels of service (including staffing and program costs), incorporate growth projections related to the cost of doing business, and include some funding to begin addressing some of the Board's highest priorities.

- Salary and Benefits assumes growth of 1.6% per year for step increases and benefit increases based on average growth from prior years as well as a 1% allowance for future Cost of Living Adjustment (COLA's).
- Services and Supplies assumes growth of 2% per year, based on estimated increases in the Consumer Price Index.
- Other Expenses – assumes growth of 2% per year, to cover increased operating costs consistent with the budget policies related to contributions to other agencies. This does not assume any transfers to Accumulated Capital Outlay.
  - Operating cost increases for replacement jail – these are budgeted beginning in FY 2021-22 at $3.5 million with growth of 2.6% per year assumed.
  - The forecasts include $2.5 million in FY 2020-21, increasing to $3.7 million in FY 20244-25 to start addressing high priorities, including implementation of the American with Disabilities Act (ADA) Transition Plan for accessible services, the Groundwater Sustainability Agency, Cyber Security, and the County's participation in regional climate action planning. Staff will continue to seek outside resources to address these priorities, which will allow the General Fund to be used to address additional priorities.

- Appropriations for Contingency is estimated to be $5 million/year based on the updated Contingency policy staff is recommending to the Board as part of the Strategic Financial Plan.

The baseline scenario shows that over the next 5 years, the General Fund will continue to operate with some surplus. (See discussion on Identified Unmet Needs below). With the exception of the current year, estimates are rounded to the nearest $100,000.

	FY2019-20	FY2020-21	FY2021-22	FY2022-23	FY2023-24	FY2024-25
Baseline Budget Surplus	**$5,233,247**	**$2,300,000**	**$0**	**$1,400,000**	**$300,000**	**$200,000**

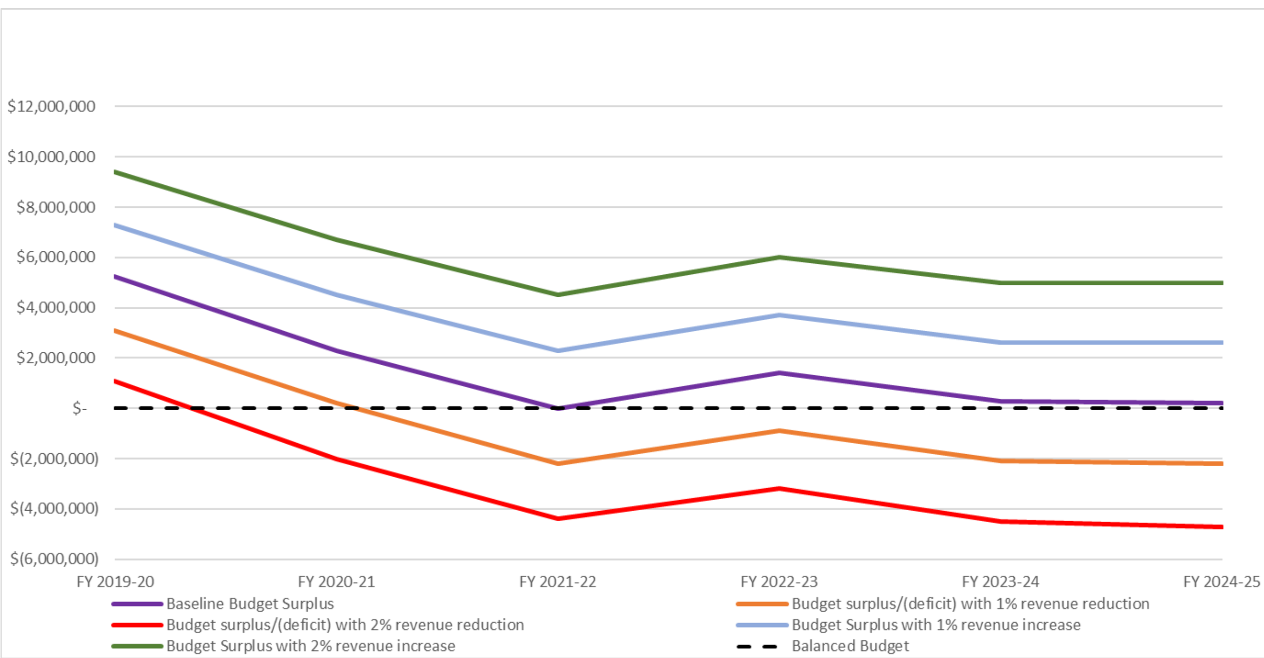
The decrease shown to occur between FY 2019-20 and 2020-21 are due to the inclusion of anticipated available resources to begin addressing some of the Board's highest priorities. These are based on actions taken by the Board already during FY 2019-20, or anticipated to be taken by the Board before the end of the Fiscal Year. Under the baseline scenario, the significant decrease in surplus from FY 2020-21 to 2021-22 can be attributed to the assumption about increased operating costs related to the opening of the replacement jail. The forecasts show stabilization beginning in 2022-23, and therefore include increased investments to meet the unfunded priorities. There are no assumptions for program growth in FY 2022-23 through FY 2024-25.

Change scenarios:

Budget development in the County tends to be driven by changes in revenue. In addition, salaries and benefits, which account for 59% of the 2019-20 adopted General Fund budget, are established by collective bargaining agreements, and are driven primarily by the number of approved positions. Therefore, these costs are relatively fixed and it is not realistic to show scenarios that show a significant decrease in expenditures that is not driven by a decrease in revenues. In this scenario, implementation of the Fiscal Contingency Strategy section of the five-year Strategic Financial Plan would be triggered to reduce expenditures to address projected revenue shortfalls.

To illustrate the risks to the General Fund over the next 5 years, staff has analyzed the impacts various changes in General Fund revenue would have on expenditures

The graph below compares the baseline assumptions with 1% and 2% increases in revenue and 1% and 2% decreases in revenue. While the baseline assumption shows that the General Fund will continue to operate with some surplus over the 5 year forecast period, any sustained decrease in revenue will require budget reductions to ensure balanced budgets. Any sustained increase in revenue can be used to address Board priorities as identified in the Strategic Plan or in the Unmet Needs list (below).



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As previously discussed, the forecasts are based on conservative estimates of beginning available fund balance based on salary savings and unused contingency fund. However, depending upon on how the County reacts to revenue changes, it is realistic to expect the fund balance to decrease more rapidly when there is a reduction in revenue and increase more rapidly when there is an increase in revenue, at least on a short-term basis.

Identified unmet needs:

Throughout the year, the Board identifies unmet needs. These are included in the 5-Year Forecast so that the list can be reviewed and updated annually. Staff can also use this list to begin addressing needs if available funding is identified. The Board has given staff direction to begin some of the projects listed below, but additional resources are, or may be, needed.

- One-time funding needs
    - Emergency Alert System updates
    - Replacement of County financial and human resources system
- On-going funding needs
    - Escalating pension costs
    - Homeless services
    - Affordable housing, including family farmworker housing
    - Americans with Disabilities Act Transition Plan implementation
        - Facilities improvements
        - Website accessibility
    - Emergency preparedness and response
    - Cyber security
    - Establishment of Groundwater Sustainability Agency (GSA) and Watershed protection and monitoring
    - Capital Improvement Projects
        - Major maintenance of county facilities
        - Culvert and bridge maintenance
        - Road maintenance and repairs
    - Circulation Element update
    - Regional Housing Needs Allocation
    - Housing Element update
    - Implementation of Climate Action and Resiliency strategies

Conclusion:

Based on these scenarios, fiscal performance at the end of FY 2024-25 could result in a general fund deficit varying from $4.7 million to a surplus of $5.0 million. This illustrates the sensitivity of the projections to the assumptions used. It is likely, that the General Fund's actual fiscal condition will vary from this projected baseline. However, it is still useful for drawing conclusions to help inform future fiscal decisions.

The baseline scenario shows that over the next five-year period, the General Fund will be balanced, with some use of available fund balance. Without planning, foresight, and fiscal prudence now, we will not have the resources to fund the increased operating expenses associated with opening the replacement jail. It remains imperative that staff continue constant vigilance in the implementation of the Board's budget policies and that all requests for use of discretionary revenue, especially for on-going uses, be thoroughly analyzed and carefully considered. It is equally imperative that one-time resources continue to be utilized to address priorities that protect future service delivery, such as paying down the pension liability and investing in major maintenance projects to prevent costly system failures. The good news is that the Board of Supervisors and Napa County staff have exercised fiscal diligence and discipline for years, so with continued implementation of best practices, the County will likely remain in a strong financial position.