



A Tradition of Stewardship
A Commitment to Service

Napa County 2025 Strategic Financial Plan

Recommended by the
COUNTY EXECUTIVE OFFICE

January 28, 2020

1. Introduction and Background

Napa County has a long history of fiscal prudence which allows for stability in the services we provide to our residents and visitors. For many years, the primary source of fiscal policy for Napa County was the “Budget Policies,” adopted annually by the Board of Supervisors. These policies provided direction to County staff in preparing the upcoming fiscal year budget and included policies that remained fairly consistent from year to year. On April 4, 2006, the Board first approved a five-year Strategic Financial Plan to articulate the overarching fiscal policies of the Board. In 2008, in response to the economic downturn (the “Great Recession”) the Board approved a “Fiscal Contingency Plan – FY 2008-09 through FY 2012-13” to guide the County’s response to the risk to the County’s financial condition. The Fiscal Contingency Plan articulated a general philosophy, guiding principles, and prioritized steps to be taken to reduce expenditures during times of economic stress. In 2011, the Board approved a Fund Balance policy that, among other things, confirmed provisions in the Fiscal Contingency Plan that set goals for the General Fund Reserve and the Assignment for Fiscal Uncertainty and specified priorities for use of any remaining available fund balance.

The five-year **Strategic Financial Plan** is intended to be used in conjunction with the County’s adopted **Strategic Plan**, the annual **Budget Policies**, and the annual **5-Year Forecast**, to guide the development of the annual Recommended Budget, as well as any mid-year budget adjustments.

The **Strategic Plan**, adopted by the Board in January 2019 and covering July 2019-June 2022 identifies five pillars based on an extensive community outreach process. Each pillar is supported by strategic goals, 16 in total, and each goal includes specific strategic actions to support the accomplishment of the goals. In adopting the Strategic Plan, the Board established the priority framework for resource allocation for the next several years.

The **Strategic Financial Plan** is intended to provide long-term strategies to allow the County to continue to provide services through periods of economic uncertainty, and provide consistent application of sound financial principals. The Strategic Financial Plan focuses on the General Fund and certain related funds. As a long-term plan, the Strategic Financial Plan does not attempt to lay out a detailed blueprint for everything that will be done, but instead provides the roadmap to maintain financial stability while continuing essential services, meeting the priorities identified in the Strategic Plan, and allowing the flexibility necessary to respond to significant changes. These potential changes include altering political direction at the state and federal levels, natural disasters, and changes in local or global economics that may impact our community

The annual **Budget Policies** are adopted by the Board at the beginning of the budget cycle, and provide specific direction to staff in the development of the Recommended Budget for the next fiscal year. They provide enough detail to allow staff to adjust the expenditures in the Recommended Budget to the resources projected to be available. These policies also establish priorities should additional resources be available to address unmet needs.

The annual **5-Year Forecast** provides the Board with a representation of the General Fund discretionary revenue outlook, based on continuing the existing level of service, and known variables. The figures provided in the 5-Year Forecast are high-level assumptions, and are intended to show general trends, and not intended to be preliminary budget figures.

2. General Fund Strengths and Challenges

The General Fund is the primary operating fund for the County with most of the discretionary revenue coming from property tax, sales tax, and Transient Occupancy Tax (TOT).

Strengths:

The General Fund has remained strong through financial downturns and natural disasters, in part due to the prudent fiscal policies of the County. The Government Finance Officers Association (GFOA) has a “Best Practice” of maintaining at least two months of operating revenues or expenditures in fund balance. Napa County is at risk of being more significantly impacted by fluctuations than counties that have a more diverse economy. Because of this, the Board has established two strategies to maintain fund balance at appropriate levels. The first of these strategies is a **General Reserve** policy that maintains a General Reserve balance equivalent to 10% of combined operational appropriations for the General Fund and the Health and Human Services Fund. The second strategy is to maintain 13% of General Fund operational appropriations available to meet immediate needs. This is accomplished through the combination of two actions. The first action is to include an Appropriation for Contingencies of \$5 million or 3% (whichever is less) of the General Fund operational appropriations as part of the adopted budget. The second action is to maintain an Assignment for Fiscal Uncertainty balance in the General Fund of no less than 10%, and the combined total of Appropriation for Contingencies and Assignment for Fiscal Uncertainty shall be no less than 13% of the General Fund operational appropriations. In addition to these, the Board also maintains a **Health and Human Services Assignment for Fiscal Uncertainty** balance of 10% of operational appropriations, less the intrafund transfers.

Challenges:

The State of California continues to be in a long period of revenue growth. While this is a positive sign, the State has historically used counties as a significant part of budget “solutions” when resources are insufficient to fund state programs, even during times of growth. The Federal budget continues to be volatile.

By the end of FY 2018-19, the current period of economic expansion matched the longest expansion since World War II. The unemployment rate in Napa County was 2.3% in October 2019, well below the 3.9% unemployment rate for California. This low rate of unemployment and the lack of available affordable housing continue to contribute to the Bay Area growing at a slower pace than the national economy.

The County will likely continue to face future fiscal challenges including:

- Continued and enhanced demand for services and a growing backlog of unmet needs in some areas, particularly infrastructure and capital needs;

- The impact of certain State programs realigned to counties without sufficient dedicated revenue to fully cover the cost of those programs;
- Increased costs associated with unfunded pension liability; and
- Limited growth in discretionary, semi-discretionary and certain other revenues and the possibility of reduced state revenues for services the County provides on behalf of the state.

Napa County has experienced numerous natural disasters, which have a direct impact on the General Fund including response and recovery costs, damage to County-owned infrastructure, and the potential loss in property tax, sales tax, and TOT revenues. A portion of the cost of response and recovery is eligible for funding by the Federal Emergency Management Agency (FEMA) and the California Office of Emergency Services (Cal-OES) and in the case of the earthquake, insurance proceeds. The General Fund has utilized General Reserves for providing cash flow for disaster response and recovery since the receipt of FEMA and Cal-OES funding is delayed for months (sometimes years), and then is reserved pending the completion of audits.

3. Philosophy, Guiding Principles and Key Policies

As the only general purpose local government covering a geographic area that includes cities and special districts – and with responsibility for both countywide and municipal services and for administering various programs on behalf of the state – counties are under pressure to be the funder or service provider of last resort when it comes to local interest and needs. At the same time, counties’ ability to raise revenue is limited and more constrained by state mandates and requirements than many other local governments. Given this, a key premise of this Strategic Financial Plan is that:

The County cannot be all things to all people nor can it be the “government of last resort.” We recognize the County’s role as a provider of services in keeping with the traditional county model. Although the County is a significant thread in a tapestry of federal, state and local government services, the County must rely on other government organizations, not-for-profit agencies, faith-based organizations, and family institutions to provide the spectrum of services our community requires.

Consequently, a major focus of this Plan is setting priorities for use of limited discretionary resources.

The following outlines the Guiding Principles and key Multi-Year Fiscal Policies that will guide the County in its efforts to ensure fiscal sustainability over the five-year period covered in the Plan. These will guide the development of the Budget Policies, which are adopted by the Board annually. As this is a long-term plan, these principles and policies are intentionally broad to maintain flexibility when there are economic or policy changes.

Guiding Principles

1. The County will maintain sufficient General Fund reserves and fund balance to provide for adequate cash flow and avoid the need for short-term borrowing and to provide a hedge against an unanticipated fiscal crisis.
2. The County’s emphasis will be on using General Fund discretionary resources to finance “core” County programs. These include traditional County programs or services that state law has made the responsibility of counties and that have historically been funded by local taxpayers.
3. In those cases where a significant need exists and Napa County has determined that the County will not assume responsibility for funding or service delivery, the County may opt to provide advocacy, coordination, technical assistance, and/or start-up financial assistance to aid others in the provision of those necessary services.
4. Except when necessary to respond to emergent or urgent situations, the County will not use one-time or limited duration revenue to fund ongoing operating costs. Instead, one-time or limited duration revenue will be used to meet non-recurring needs, like capital projects or paying down unfunded liabilities.

5. Over the five-year planning period, except in times of fiscal distress, the County's goal is that, on average, **actual** annual General Fund operating expenditures will not exceed operating revenue.
6. In periods of fiscal distress it is appropriate to temporarily use fund balance and/or reserves to help balance the General Fund budget, but only if that use is part of a plan to achieve long-term structural balance, with the goal of achieving structural balance within 24 months.
7. Generally speaking, it is better to do a few things well than a lot of things poorly. The County's goal is to provide high priority services in a professional, effective, and efficient manner, even if it means limiting the number or type of lower priority services provided.
8. The County administers a number of costly state programs that are primarily funded by state and federal dollars. Recognizing the limitations on the County's ability to increase discretionary revenues, in the event of a reduction in resources for these programs, the County's goal, to the extent legally possible, is to avoid backfilling reductions in state and federal dollars with discretionary dollars.
9. To maintain as much flexibility as possible to address priority needs and deal with exigent circumstances, wherever legally possible, revenues are to be treated as discretionary resources, rather than dedicated to a particular program.
10. When charging for services or claiming federal or state revenues, the County's goal is to recover the full cost of services provided, including departmental and county overhead.
11. Generally, it is appropriate to use discretionary resources to fund programs or services that provide a broad public benefit. To the extent legally possible, programs or services that primarily benefit a smaller sub-group should be paid for with user fees or assessments.
12. The County provides countywide services to people who live in all areas of the County and municipal services to residents of the unincorporated area. Because city residents already pay taxes or fees to their cities for municipal services, it is important to ensure that city residents do not subsidize the cost of providing services to residents of the unincorporated area.
13. The County has a fiduciary responsibility to the taxpayers to ensure that public funds are spent only to achieve an appropriate public purpose and that any expenditure of public funds incorporates appropriate control and accountability measures to ensure that the public purpose is being achieved.
14. One-time resources (including fund balance) will be spent on one-time expenditures in accordance with the Budget Policies.

Key Multi-Year Fiscal Policies – FY 2020-21 through FY 2024-25

1. General Reserve Policy: Maintain a General Reserve balance equal to 10% of General Fund and Health and Human Services Fund appropriations (not including the General Fund Appropriation for Contingencies and Disaster Response and Recovery, any transfer to the Accumulated Capital Outlay Fund, the General Fund contribution to the Health and Human Services Fund and the General Fund Contribution to Roads). The General Reserve is to be maintained at this level at all times, except in the case of a dire fiscal emergency or declared natural disaster.
2. Maintain 13% of General Fund operational appropriations available to meet immediate needs. This is accomplished through the combination of two actions. The first action is to include an Appropriation for Contingencies of \$5 million or 3% (whichever is less) of the General Fund operational appropriations as part of the adopted budget. The second action is to maintain an Assignment for Fiscal Uncertainty balance in the General Fund of no less than 10%, and the combined total of Appropriation for Contingencies and Assignment for Fiscal Uncertainty shall be no less than 13% of the General Fund operational appropriations.
3. Health and Human Services Assignment for Fiscal Uncertainty Policy: Strive to maintain an Assignment for Fiscal Uncertainty in the Health and Human Services Fund of 10% of the Health and Human Services Fund appropriations less any intrafund transfers. In times of fiscal distress, including the loss of state and/or federal revenues for priority programs, these funds can be used to help balance the Health and Human Services Fund budget as part of a plan to achieve long-term structural balance in that fund. Any plan to achieve long-term structural balance should include a provision to replenish the Assignment for Fiscal Uncertainty balance to the 10% level in the Health and Human Services Fund.
4. Once the General Reserve and the General Fund Assignment for Fiscal Uncertainty requirements are met, and after evaluating all existing and new Assignments, evaluate any remaining General Fund sources to reduce long-term liabilities, as identified in the annual budget policies.
5. After evaluating long-term liabilities, transfer any remaining unappropriated General Fund discretionary resources to the Accumulated Capital Outlay (ACO) Fund to be retained to address unmet capital needs.

4. Resource Allocation Strategy

To the extent that the 5-Year Forecast provides clear evidence that there is a significant surplus during the five-year projection period, any available resources may be invested in program enhancements as set forth in the most current County Strategic Plan. The Resource Allocation Strategy should prioritize those services that are to be funded primarily by the General Fund (and discretionary resources) over those services that are to be funded primarily by special revenue funds or other funding mechanisms. Priority shall be given to fully funding existing programs and existing infrastructure.

5. Fiscal Contingency Strategy

To the extent that the annual 5-Year Forecast shows that there is a deficit during the five-year projection period, expenditure reductions or other actions may be taken, if needed, to address a significant reduction in resources, as set forth in this Strategy.

The potential components of any fiscal contingency strategy are essentially the same for all local governments: incremental expenditure cuts; major program cuts; identification and implementation of new revenue sources; distinguishing between high priority and lower priority programs; across-the-board funding cuts; etc. The differences come in how these components are structured in any particular jurisdiction (i.e., what happens first, what programs, if any, are exempt from reductions, etc.).

The County's approach to structuring the components of a Fiscal Contingency Strategy is set forth below.

General Philosophy

To the extent possible, across-the-board reductions in expenditures will be avoided. Reductions will be made on a case-by-case basis, focusing particularly (though not exclusively) on discrete programs or services. Maintaining a highly professional service delivery system is of foremost importance to the County. Thus, if it becomes necessary to make significant service level reductions, the goal will be to reduce the quantity of a service provided rather than the quality of service.

Also, it does not necessarily make sense to fund current operations at the expense of long-term capital or planning programs. Consequently, every effort will be made to continue capital and planning programs geared to meeting the County's long-term needs.

Resource Reduction Priorities

Short-term Actions

The following actions will be considered when dealing with the immediate impact of a significant reduction in resources. The purpose of these actions is to achieve immediate savings and/or better position the organization to deal with the impact of longer-term actions once they are implemented. The actions are listed in priority order:

1. Major General Fund-supported office space remodels will be halted, unless they are required to address critical health or safety needs.
2. Purchase of equipment and capital assets will be selectively deferred. Funding source and impact on service delivery will be considered in implementing the deferral.
3. Implementation of new programs not fully operational and/or not fully revenue offset, will be halted.

4. Approval of contracts for services, not fully revenue offset, will be selectively deferred. Funding sources and impact on service delivery will be considered in implementing the deferral.
5. A selective hiring freeze will be implemented.

Longer-Term Actions

The following actions will be considered when dealing with the longer-term impact of a significant reduction in resources. The actions are listed in priority order and lower priority actions will be implemented only if higher priority actions are insufficient to deal with the fiscal shortfall. Once the County's fiscal situation improves, staff will seek direction from the Board on whether to restore funding or otherwise return to the pre-reduction levels.

1. A moratorium will be placed on implementing new programs or expanding existing programs if the cost of those programs or expansions is not fully revenue offset and a secure, long-term funding source is not identified.
2. To the extent legally possible, or where it does not impact the public's health and safety, place a hard freeze on backfilling reductions in federal or state funding, or in using General Fund money to cover cost of doing business increases for programs primarily funded by state or federal resources.
3. Moderate reductions in discretionary support will be made on a case-by-case basis. These reductions will focus first on programs appropriately funded by dedicated resources (such as fee-supported programs where fees are not yet at full cost recovery or state or federal programs where the County provides an over-match). Reductions made at this point will generally have only a limited impact on service levels and may, in some cases, be offset by increases in fees.
4. Discretionary funding for programs appropriately funded by dedicated resources will be significantly reduced or eliminated. This may involve reducing the County match to the minimal mandated level. In the case of programs that are primarily the state's responsibility, the County will consider returning responsibility to the state for operating those programs, to the extent permitted by law. In the case of fee-supported programs where the fee structure does not fully cover program costs, fees will be increased to fully cover those costs.
5. Limit the annual transfer of General Fund revenue to the Special Projects Fund (which is funded by a portion of TOT) as called for in current Board policy to those amounts encumbered by a multi-year contract. Do not enter into any new contracts or renew any contracts for use of Special Projects Fund money.
6. Discretionary resources that have been earmarked by the Board for certain purposes will be reviewed and proposed for re-allocation to fund core County programs.

7. Major program reductions will be proposed in programs appropriately funded with discretionary resources, starting with the lowest priority service areas and moving on to higher priority service areas as needed. Reductions will be made in the following priority order, focusing on maintaining adequate service levels in core programs:
 - Community Resources/Infrastructure
 - General Government – Civic Services (excluding services related to property tax assessment, collection, and apportionment)
 - Law, Justice and Public Safety
 - Health and Human Services
8. Place a moratorium on all General Fund supported facilities capital improvement projects, other than those needed to address critical health and safety needs. Transfer any unobligated funds in the Accumulated Capital Outlay Fund to the General Fund.
9. A reduced work week or period of unpaid leave may be proposed to achieve salary savings.

6. Revenue Enhancement Strategy

This Revenue Enhancement Strategy describes whether, and how, the County will seek additional revenue to fund needed services.

NEW REVENUE

During the period covered by this Plan, the County will not seek increases in major discretionary revenue sources or new discretionary revenue sources, such as a local option sales tax or an increase in the TOT, unless this is associated with a new program (such as commercial cannabis). The County may seek additional funding through:

- Pursuit of grants, though grants will only be pursued for operational funding if the funding is for programs or services the County would otherwise have provided and the grant provides on-going funding or will be used to supplant General Fund resources.
- Increases in fees for fee-supported programs, where the current fees do not fully cover the cost of the program or to keep pace with increases in the cost of doing business.