AGENDA ITEM NO.
I-1

COUNTY OF HUMBOLDT

For the meeting of: January 17, 2016

Date: December 20, 2016

To: Board of Supervisors

From: Amy S. Nilsen, County Administrative Officer AN

Subject: 2017 Five Year Financial Forecast Report

RECOMMENDATION(S):

That the Board of Supervisors receive a staff report on the financial forecast of the county's major funds for the next five years.

SOURCE OF FUNDING: General Fund, Department of Health & Human Services, Roads Fund, Library Fund, Risk Management Funds, Aviation Fund.

DISCUSSION:

The County Administrative Office provides the Board quarterly budget reports. Starting in 2013 a five year financial forecast report was developed and is intended to provide the Board and public information on trends in anticipated revenues and expenditures for the county's major funds for the next five fiscal years. The report provides a baseline for measuring future year needs and resources based on current conditions. Ongoing financial uncertainties require financial planning beyond the current single year budget process. Budget decisions made in one year can have significant impacts on resources that are available for future years.

Prepared by Sean Quincey CAO Approval Elishia Hayes

REVIEW:
Auditor NKSW County Counsel ______ Human Resources ______ Other ______

TYPE OF ITEM:
______ Consent
X Departmental
______ Public Hearing
______ Other ______

PREVIOUS ACTION/REFERRAL:

Board Order No. ______

Meeting of: ______

BOARD OF SUPERVISORS, COUNTY OF HUMBOLDT
Upon motion of Supervisor Wilson Seconded by Supervisor Sundberg

Ayes Wilson, Sundberg, Bass, Fennell
Nays
Abstain
Absent Bohn

and carried by those members present, the Board hereby approves the recommended action contained in this Board report.

Dated: January 17, 2017
By: Brooke Eberhardt
Kathy Hayes, Clerk of the Board

Economic indicators for the United States, California and Humboldt County show that recovery from the recession is continuing and all indications are that the economy will continue to grow for the next year or two. However there are still items that could impact the economy in the future, including the very real possibility for another recession, legalized recreational cannabis, and changes at the federal level under a new presidential administration.

The county continues to chip away at its outstanding obligations but will not see relief soon without an increased level of investment. Several larger funds are operating at a deficit due to declining revenue or operational imbalances, and if not addressed could further impact the General Fund. Some issues noted in this report include the increasing CalPERS rates for retirement and the county's unfunded actuarial liability, the impact of deferred maintenance on county facilities, lack of sufficient reserves, and the consent decree with the Department of Justice regarding the Americans with Disabilities Act.

The 2017 report results indicate that the General Fund's financial outlook is slightly better than it was a year ago, but expenses still outpace revenues for the length of the forecast. This is primarily due to slower property tax revenue growth and increased salary and benefit costs. The results are that in the moderate outlook for the General Fund over the five year forecast period revenues do not keep up with expenses and reserves, contingencies and deferred maintenance contributions are below policy level. The value of a long-range financial forecast is that it provides an advance look at the county's financial health in time for corrective action to be taken. The Board will have an opportunity to address this challenge starting with the mid-year budget review which sets the parameters for the FY 2017-18 budget development.

FINANCIAL IMPACT:

Acceptance of today's report has no direct financial impact.

The five year financial forecast supports your Board's Strategic Framework, Priorities for New Initiatives by helping to manage County resources to ensure sustainability of services.

OTHER AGENCY INVOLVEMENT:

None.

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion.

ATTACHMENTS:

2017 Five Year Financial Forecast

Humboldt County

2017 Five Year Financial Forecast

<u>Board of Supervisors</u>

Rex Bohn, District 1

Estelle Fennell, District 2

Mike Wilson, District 3

Virginia Bass, District 4

Ryan Sundberg, District 5

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Purpose

Humboldt County's Five Year Financial Forecast report is intended to provide the Board and public information on trends in anticipated revenues, expenditures and fund balance for the county's major operating funds for the next five fiscal years. This report covers only the largest county funds and funds with significant negative balances. Forecasts for funds not included were reviewed by county administrative staff and projected to have no noteworthy changes or issues over the five year period.

Economic Outlook

Economic indicators for the United States, California and Humboldt County show that recovery from the recession is continuing and all indications are that the economy will continue to grow for the next year or two. However there are still items that could impact the economy in the future:

- The federal Congressional Budget Office (CBO) outlook forecasts a fast pace of economic expansion on a national level through 2017 before moderating in 2018, which could spur hiring, employment and wages, but also put pressure on inflation and interest rates.
- Historically recessions have occurred about five years apart with the longest period of expansion being 10 years. So far the current economic expansion is approaching seven and a half years, the fourth longest on record in this country, and history suggests we may now be well past the midpoint of recovery. Another recession may occur during the five year forecast period.
- Although the numbers are increasing for local building permits they still remain low compared to pre-recession levels.
- Voters during the November 2016 election passed Measure S, a local excise tax on commercial cannabis cultivation. This tax has potential to generate revenue for the county and protect the local cannabis industry.
- Voters also decided to allow recreational cannabis use in the state. This could have significant economic impacts on Humboldt County, though it is difficult to project the industry's future as there is not readily available historical data to draw from.

The county receives a large amount of revenue that is dedicated to funding mandated state and federal programs. For this reason the state and federal budgets have the potential to impact the county General Fund and programs delivered through various Department of Health & Human Services funds. Some key factors related to the state and federal budgets include:

- The state Legislative Analyst's Office (LAO) forecast has become more uncertain since last year. It assumes continued moderate economic growth for California for 2017 but recognizes the potential for an economic downturn as soon as mid-2018.

- The state has continued to make progress towards building up reserves. This is good for local governments because reserves have the potential to provide a buffer against state budget problems if a negative economic situation such as recession were to occur. The LAO assumes the state could weather a mild recession though new commitments or policy changes would affect the outlook.

- The federal budget deficit is generally on an upward trend over the next decade, which could have serious consequences both for the economy and federal budget. This poses a risk to the local economy as well as the county budget and services as the federal government likely would need to either raise taxes or cut spending.

- In November, voters elected Donald Trump as President and Republicans make up a majority of both chambers of Congress. This could result in major changes to federal policies and programs, such as the Affordable Care Act.

County Outlook

The county continues to chip away at its outstanding obligations but will not see relief soon without an increased level of investment. Several funds are operating at a deficit due to declining revenue or operational imbalances, and if not addressed could further impact the General Fund.

- The county's contribution rates towards pension costs are expected to rise through the full five years of the forecast. CalPERS is now requiring fixed payments towards the county's unfunded liability, rather than a percentage of payroll, which should provide predictability to contribution amounts. However, CalPERS has lowered its estimates on expected returns, which is forcing local governments to contribute more to retirement. In order to smooth out future increases, the county participates in the PARS post-employment benefits trust program. Further investment in PARS will be needed to reduce the county's unfunded liability.

- There are several county facilities that require extensive repair and/or rehabilitation, while many others are well behind in regular maintenance. The county contribution to these projects is not keeping up with costs and will require significantly more funding or other action if not addressed.

- While the state's reserves have rebounded since the recession, the county cannot claim the same success. County reserves are not up to policy levels, nor have they been restored to pre-recession levels. The amount currently in reserves is insufficient to weather much more than a very mild economic downturn.

- The consent decree with the Department of Justice (DOJ) regarding Americans with Disabilities Act (ADA) requires that the county make significant improvements and investments to county facilities and operations. If the DOJ determines the improvements are not adequate, it may compel the county to invest more financial resources towards ADA projects.

- Like county facilities, the lack of proper maintenance on county roads is taking a toll. The gas tax used for roads has been declining steadily and will need to be supplemented by additional state or federal funding in order to maintain local roads at even a minimal level.

- The county's commercial airport secured a second airline this year for the first time in nearly five years. The Aviation fund, however, is still operating with a large structural deficit. The fund continues to cover budget gaps with short-term solutions but a long-term sustainability plan needs to be developed.

- One-time expenses and looming payouts are threatening the Library fund, which is already spending more than it receives. The Library needs to bring operating costs in line with available financing.

- Long processing times at the state and federal levels are causing the Mental Health cost settlements to lag for several years. This is resulting in large negative balances for the Mental Health fund, and is being covered using short-term fixes. This poses a risk to other funds that would be relied on to cover the revenue gap in the Mental Health fund.

General Overview

Considering all of the economic uncertainties, forecasting revenues and expenditures five years into the future is a difficult task. This report is intended to provide a baseline to help understand potential impacts of changes in revenues or costs on the county budget. This report summarizes the County Administrative Office's assessment of the economy and county budget condition. The main outlook scenario (referred to as the "moderate forecast") assumes continued moderate economic growth. To illustrate the economic uncertainty two alternative forecast scenarios are provided for the General Fund. It is likely that there will be differences between what is being projected and actual amounts, even if key assumptions are correct.

The forecast does not attempt to predict the budgetary decisions that will be made by state and local elected leaders. Difficult choices must be made between the benefits of spending funds now on much needed services and programs versus increasing reserves. When an economic downturn occurs reserves can help maintain services. The projections are an estimate of the county's fiscal condition if current law, policies and economic conditions remain mainly unchanged through FY 2021-22. One example of the type of change that could occur is the decision of the Board to grant raises to county employees in 2016 and 2017. This was not included in the financial forecast prepared in 2015, and its effects were seen as a significant change in the 2016 forecast.

Area

Humboldt County is a densely forested, mountainous, and rural county located on California's northern Pacific Coast. The southern border of the county is located 200 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 3,568 square miles, 80 percent of which is forestlands, protected redwoods and recreation areas. The county has close to 110 miles of coastline, more than any other county in California and contains Humboldt Bay, the second largest natural bay in the state.

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, which is about three hours drive to the east. San Francisco is approximately six hours drive to the south. The county's regional airport in McKinleyville is currently serviced by one commercial airline which provides daily flights to San Francisco. Transportation in and out of Humboldt County is challenging and is viewed as a limit to the local economy.

There are two major institutions of higher education in Humboldt County. 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 its main campus south of Eureka.

Population

The 2010 census population of Humboldt County was 134,623. According to the California Department of Finance, the estimated population as of January 1, 2016, was 135,116. The county has seven incorporated cities ranging in size from 367 to 26,765 persons. Slightly more than half of the county's residents live in incorporated communities, while 53 percent of residents live in the area surrounding Humboldt Bay. This area includes the cities of Arcata, Eureka, Ferndale, and Fortuna, and the unincorporated community of McKinleyville.

Based on 2010 census data Humboldt County has 37.7 persons per square mile. This is significantly lower than the state which has 239.1 persons per square mile.

Services

The County of Humboldt provides a wide range of services to its residents, including peace officer 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.

Economy

The indicators are mixed for Humboldt County's economy. According to Humboldt State University's Economic Index report for November 2016 home and retail sales fell over the last year, while employment is slightly up. Building permits are up for the second year in a row, which is good because that should add to the property tax base.

These local economic activities are supported by Beacon Economics' Fall 2016 economic forecast. Beacon Economics reports that housing has been mixed since the recession, with demand being sustained by low interest rates while at the same time impeded by low inventory, high underwriting standards and large down payment requirements.

Over the past year California has been the fifth fastest growing state in the nation and single largest source of new jobs. One down side to this is a decreasing supply of available skilled labor which could hinder future economic growth. Home unaffordability continues to be a challenge in California. Even with increased construction activity home building has not kept pace with population growth in the state.

The impacts of marijuana on the local economy and what will happen now that it has legalized in California are subjects of much debate. The United States Bureau of Labor Statistics and California Employment Development Department data are the standard used to track the economy and characterize employment. There is not a similar reliable source of data for an underground industry such as cannabis cultivation making it difficult to measure local impacts.

According to estimates from a 2010 study done for a master's thesis by a local banking professional, Humboldt County had approximately $416 million in unaccounted for spending relative to other similarly sized counties in California. That could amount to as much as 26 percent of local taxable income. The same study estimated that about $1 billion of cannabis was grown in the county (wholesale value). Estimates of the number of farms within the county vary from 4,000 to 10,000. There is anecdotal evidence that local production has increased since 2010.

Cannabis is certainly infusing the local economy with cash which results in people spending more money with local business and supporting local jobs. Cannabis cultivation has also stimulated local innovation and entrepreneurship resulting in local businesses that manufacture soil amendments and various types of growing equipment. There are also service business that support the industry such as attorneys, accountants, water trucking and environmental consultants. Even with the recent legalization of cannabis, a black market around the industry is still likely to remain. This brings economic downsides including removing people from the reported workforce, diversion of water, damage to natural resources and increased criminal activity and violence.

The Adult Use of Marijuana Act (AUMA) was passed by voters in 2016 and it largely aligns with the statewide licensing and regulatory framework for medical cannabis that was created by the state's Medical Marijuana Regulation and Safety Act from 2015. A formal state licensing process is currently being developed as a result of these acts. At this time the economic impacts of these new regulations on the local cannabis industry are not clear. Positive points are that counties retain significant local control and are granted taxing authority. Humboldt County voters approved a local cannabis excise tax passed in 2016 and its projected impacts are included in the optimistic General Fund forecast. The acts also allow appellation standards which could help local farmers by protecting the Humboldt County name.

How Humboldt County's economy is impacted by cannabis going forward continues to depend largely on how local stakeholders and members of the industry adapt to the new regulatory environment. It is hard to forecast over the next two years what percentage of local farmers will come into compliance and be competitive with cannabis operations in other parts of the state. Indications so far are that there is a strong local cannabis business community that wants to be legal, responsible and successful as many have already submitted local applications for permits and registrations. However it is hard to gauge how large that group is compared to the growers that will continue to operate out of compliance and on the black market and how that will influence the local economy.

The potential economic impacts to Humboldt County as a result of AUMA are also hard to project. If Colorado's experience is an indicator, its state and local governments collected $135 million in tax revenue on the sale of nearly $1 billion of cannabis. However, prices have fallen in the state by nearly half over the past year, which will affect revenues going forward. It is not yet known what the lasting effect legalization will have on property values, but they could decline, along with retail sales over time. Both of these would result in reduced revenues to the county and are included in the pessimistic General Fund forecast.

Major Revenues

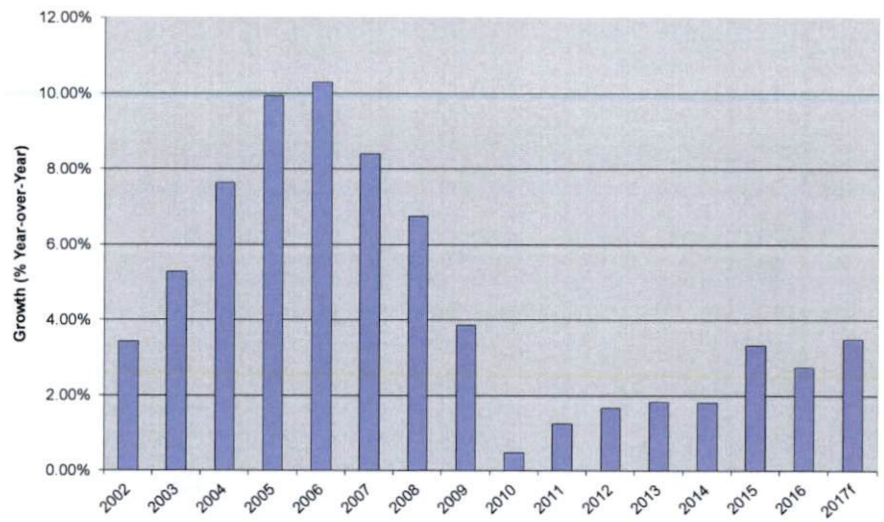
Revenues that the county receives are generally broken into seven categories according to the source of the revenue. The categories are: taxes; licenses and permits; fines, forfeitures and penalties; use of money and property; revenue from other governmental agencies; charges for current services; and other revenues. For the financial forecast different categories may be used for each fund based on the relative size of the revenue source and influencing factors.

Taxes are the county's portion of funds paid by the general populace for general support of governmental institutions. Examples include property taxes paid on a home or business, retail sales taxes paid when making purchases on most non-food goods, and franchise fees that utilities pay for use of public rights-of-way and pass along to consumers on their utility bills.

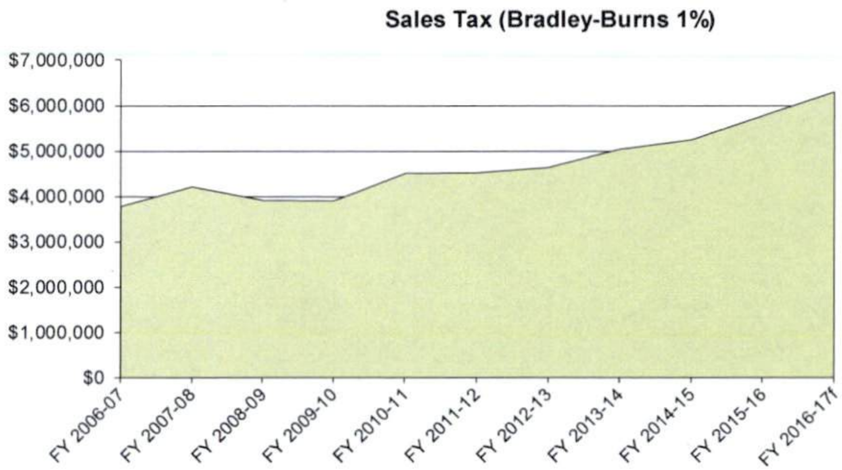
Taxes are the largest source of discretionary revenue to the General Fund. In particular, property taxes generate the most tax revenue. Property tax is imposed on real property and tangible personal property. Since the passage of California Proposition 13, the tax is based on either a 1 percent rate applied to the 1975-76 assessed value of the property, or on 1 percent of the sales price of the property on sales transactions and construction which occur after the 1975-76 assessment as inflated by the lesser of 2 percent or the Consumer Price Index (CPI). In the 40 years since the passage of Proposition 13 the state inflation rate has fallen below 2 percent only 10 times. **Five of those times have occurred since 2009.**

Over the last 20 years assessed property tax values in Humboldt County have grown on average by 4.4 percent. However, over the last five years the average growth has been only 2.3 percent. Also of note is that there have only been two times where the assessed property values in Humboldt grew less than the state inflation rate, with both of those occurring in the last five years. The changes in growth since the last recession continue to make forecasting property tax revenues difficult.

Change in Humboldt County Assessed Property Tax Value



The state wide sales tax rate increased from 7.25 percent to 7.5 percent as of January 1, 2013 due to the passage of Proposition 30. This increase expired on December 31, 2016 returning the state wide rate to 7.25 percent. Of that amount 1 percent is considered the local sales tax (for the county, this is only on sales in the unincorporated area). The remaining 6.25 percent is the state's portion. The state General Fund receives 3.9375 percent and 2.3125 percent is returned to counties for specified purposes: 0.50 percent for Proposition 172 local public safety; 0.50 percent for 1991 realignment; 0.25 percent for local transportation; and 1.0625 percent for 2011 realignment. Some local cities have an optional local sales tax rate above the 7.25 percent. In November 2014 the voters of Humboldt County approved Measure Z which created a local sales tax rate of 0.50 percent countywide with the revenues going to the county General Fund. This went into effect April 1, 2015, and will generate revenue through March 30, 2020.



The Transient Occupancy Tax (TOT) (Hotel, Motel, or Bed Tax) is authorized under State Revenue and Taxation Code Section 7280, as an additional source of non-property tax revenue to local government. This tax is levied in Humboldt County at a rate of 10 percent for accommodations at lodging facilities in the unincorporated areas of the County.

TOT funds are discretionary, in that the Board of Supervisors may direct use of these funds for any legitimate county expense. The tax code does not require any specific use of the TOT Funds. The Humboldt County Board of Supervisors has established a policy that the funds raised from this tax will be used, in part, to finance advertising and promotional activities to support Humboldt County's tourism economy.

Timber yield tax is a tax in lieu of ad valorem property taxes on forest land paid by property owners when they harvest their timber. The timber yield tax rate is currently 2.9 percent. The amount of tax is calculated according to the volume of timber harvested, the established value for the species harvested, and the tax rate. Timber taxes for the county have gone from a high of $2.2 million in FY 2000-01 to a low of $108,716 in FY 2009-10. The estimated revenue for FY 2016-17 is $500,000.

Taxes represent 20.5 percent of total county revenues and 90 percent of the county's discretionary resources for the General Fund.

Licenses and permits are fees paid for necessary governmental permission to take an action. Examples include licenses to keep a dog or operate a business, permits for encroaching on public property, and marriage licenses.

Fines, forfeitures and penalties are funds collected as punishment for taking an improper action. These include fees paid to undergo alcohol or drug counseling due to a conviction, impound fees for stray dogs, and various court fees.

Use of money and property is revenue derived from governmental assets, including interest on investments of county money prior to its expenditure and rentals derived from county real property.

Other governmental agencies revenue consists of transfers from state and federal programs. This includes both tax revenue passed through other governments to the county on a formula basis (such as the highway users tax on gasoline sales or the portion of state sales tax for local law enforcement) and grants from other governments for the county to carry out a specific program (such as temporary assistance to needy families for welfare payments to indigent county residents).

Charges for current services are fees levied for services provided by a particular department, whether to another county department, to another governmental entity, or to the public. Examples include elections fees to cities and special districts, land use project fees charged to developers, and laboratory fees to Public Health customers.

Other revenues consist of a variety of revenue sources not included in the above categories. These include outright sales of county property, transfers between county funds made by policy rather than as payment for a specific service, and private donations in support of particular county programs.

Major Expenditures

Generally expenditures are split out into four major categories depending on the type of cost. These categories are: salaries and employee benefits; services and supplies; other charges; and fixed assets. For the financial forecast different categories may be used for each fund based on the relative size of the expenditure type and influencing factors.

Salaries and employee benefits are the costs for employing permanent and extra help workers to conduct county business. Overall salaries and benefits represent 46.4 percent of total county expenditures, while representing 54.2 percent of the county's General Fund costs.

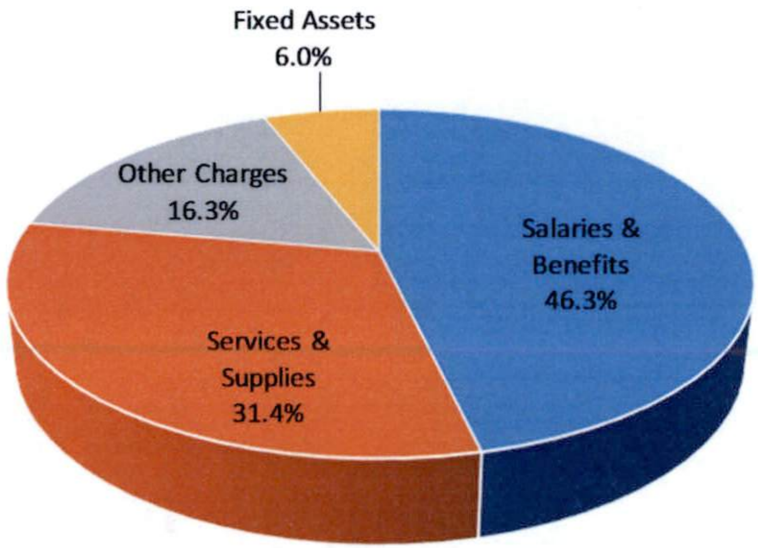
Supplies and services include the bulk of non-salary expenses, ranging from insurance and utilities to office supplies to contracts with outside professionals.

Other charges consist of a number of different expenditures not included in the categories above, including support for persons (such as assistance payments and jail medical), costs related to grants, payments on county debt, contributions to other county funds and non-county agencies, and intrafund transfers which are reimbursements of expenses.

Fixed assets are expenditures for long-term capital outlays with an expected life in excess of one year and an initial value in excess of $5,000.

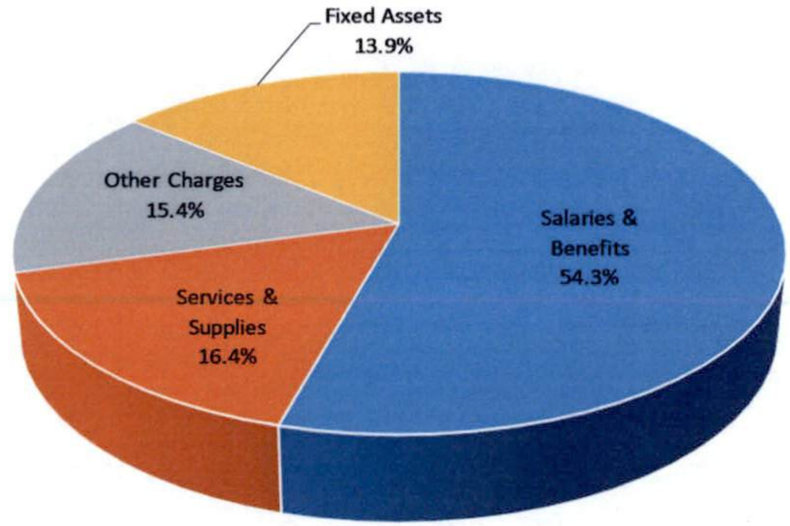
Expenditures by Major Category

All Funds



Humboldt County's expenditures for all funds from the current adopted budget are $353,377,402 and are allocated by major category as shown.

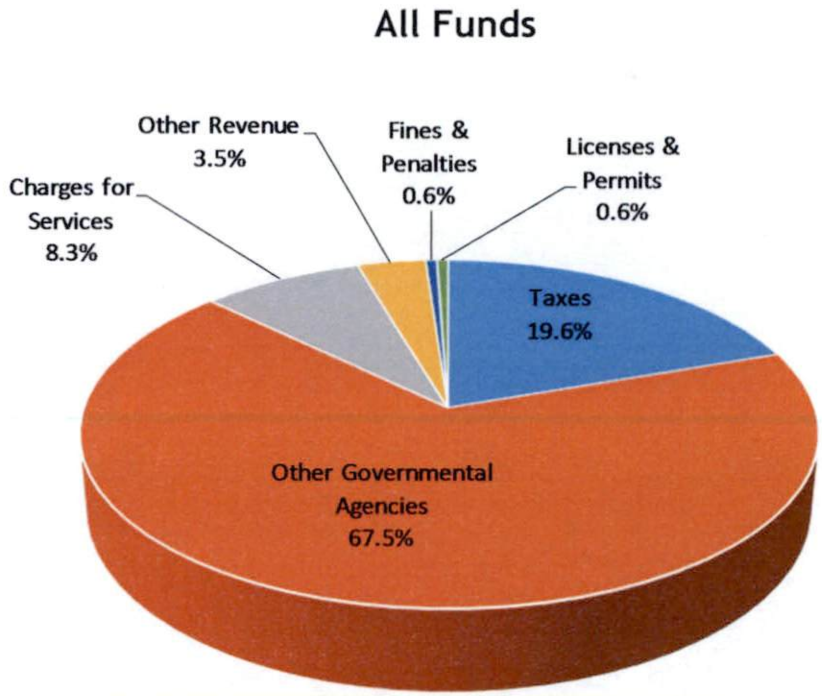
County General Fund



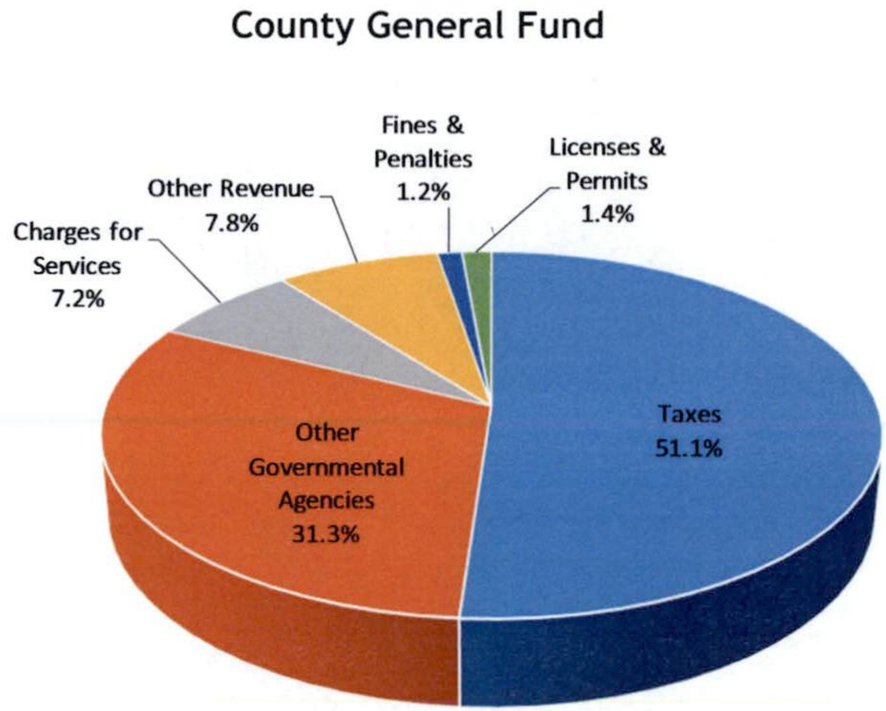
General Fund Total expenditures of $122,932,981 from the FY 2016-17 adopted budget shown by major category.

Trends and Graphs

Revenue by Source

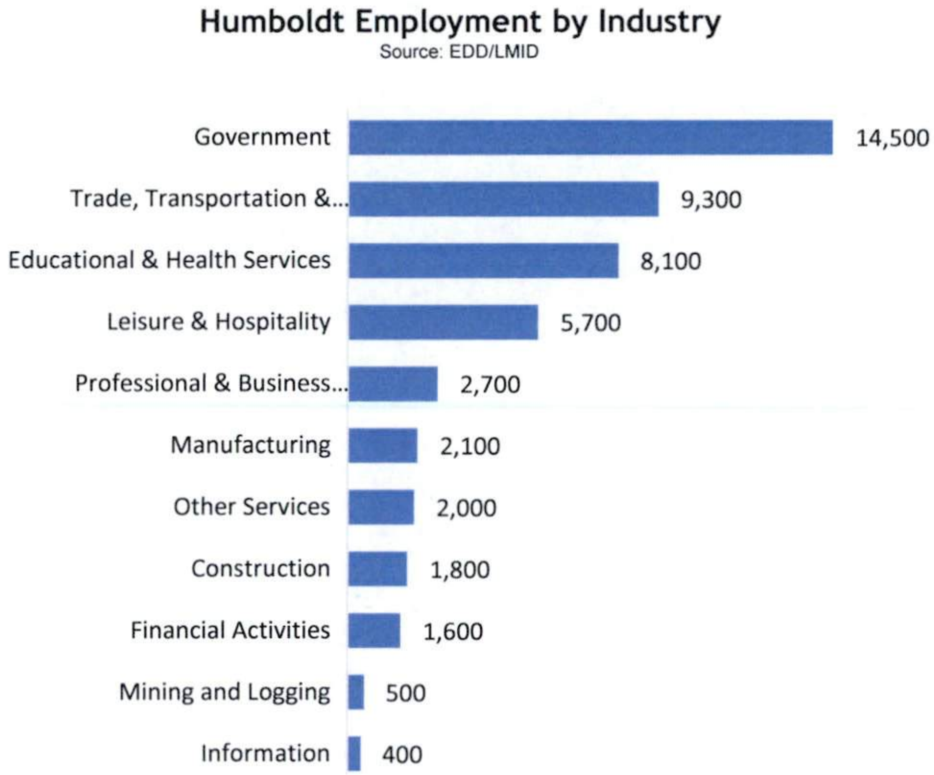


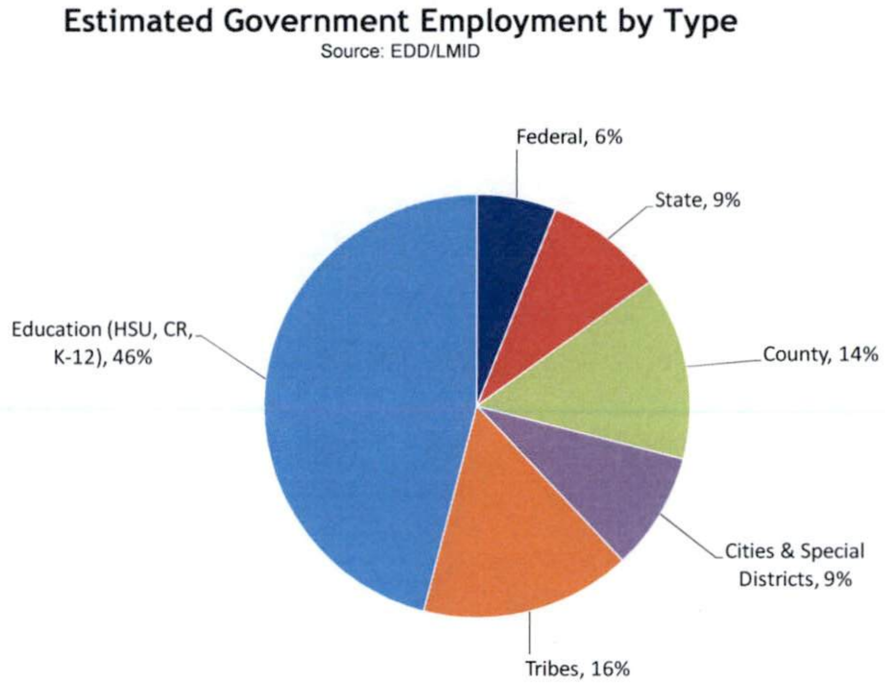
Humboldt County's total budget for current revenue is $343,842,170 and is obtained from the revenue sources shown above. The balance of funds necessary to support expenditures, $9,535,232 is derived from fund balances and represents 2.7 percent of the total budget.



The total distribution of $118,017,810 in General Fund revenues by source is shown above. The balance of funds required to support expenditures, $4,915,171 is provided by fund balance and represents 4 percent of the General Fund budget.

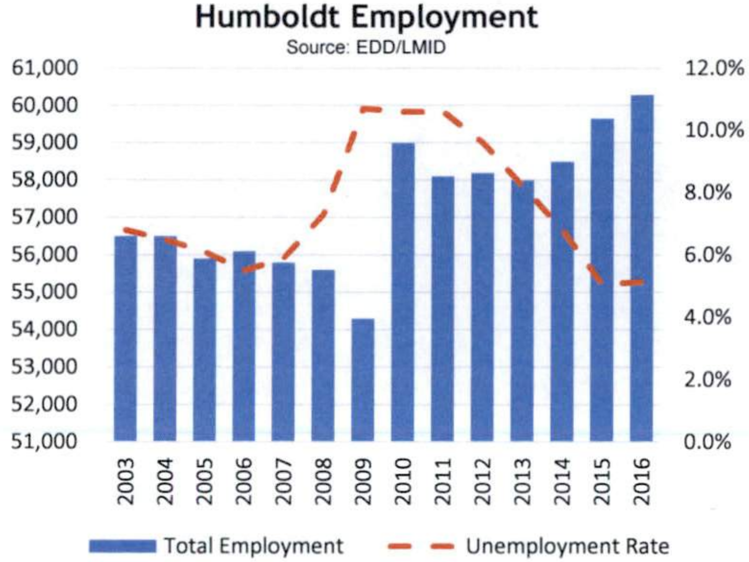
Humboldt Economic Snapshot

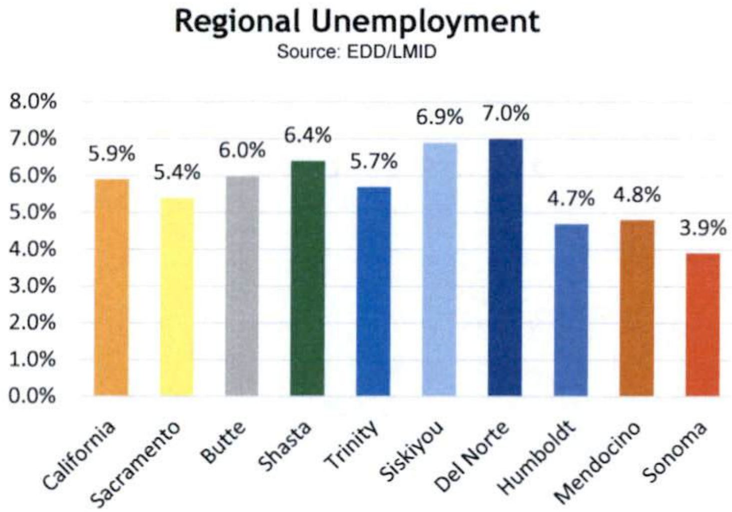


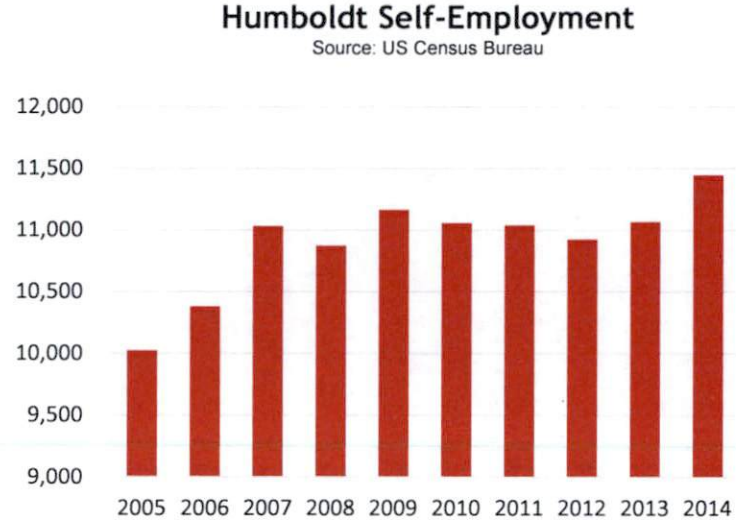


The graphs above show employment distribution in Humboldt County by industry. According to data from the Employment Development Department/Labor Market Information Division (EDD/LMID) Humboldt's employment distribution is more diversified relative to other rural counties in the state. Government continues to be the largest employment sector in the county accounting for 29.3% of employment. Government is made up of a variety of public sector employers as shown in the graph on the right.

Humboldt Economic Snapshot

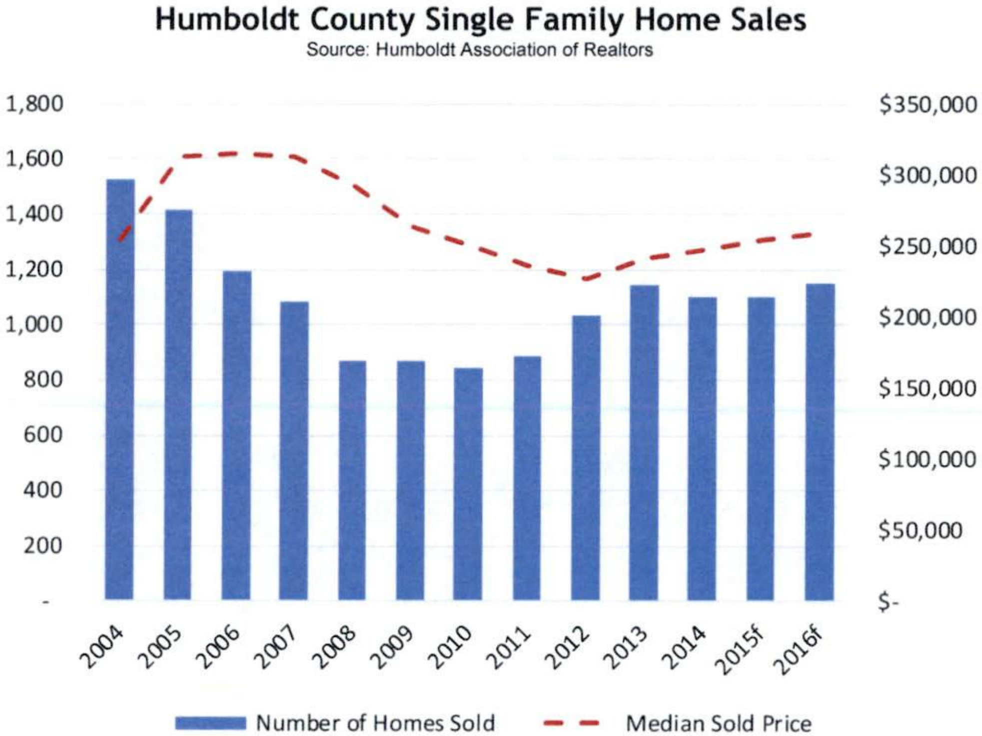


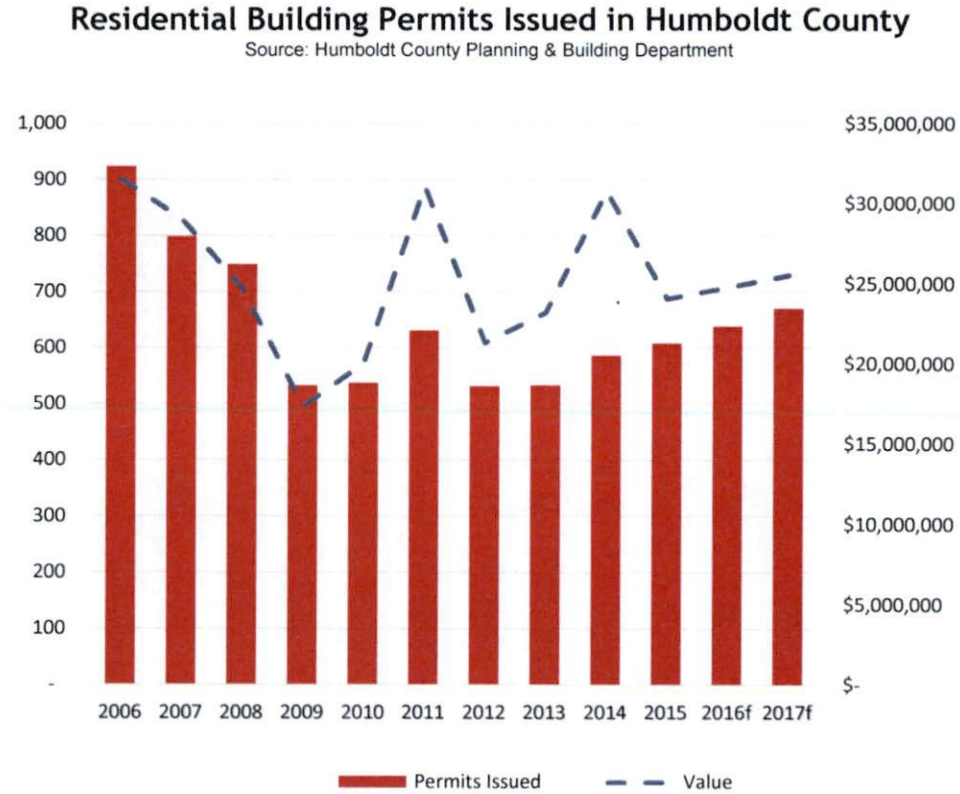




The graphs on this page show employment, self-employment and unemployment trends for Humboldt County. Employment has been slowly increasing in the county since 2011. In 2010 unemployment peaked and started to decline, but that trend was reversed in 2014 when Humboldt's overall self-employment rate climbed 1 percent above it previous high from 2009. Humboldt County's unemployment rank is among the lowest in the northern California counties, as of 2014.

Humboldt Economic Snapshot





The graphs above shows trends in Humboldt County single family home sales and residential building permits which impact property tax revenues. Between 2005 and 2011 home prices and sales declined. By 2012 prices stopped declining and the number of homes sold started increasing. In 2013 sales volume increased and prices began rising for the first time in eight years. This trend of improvement is projected to continue in the forecast. Residential building permits declined from 2006 to 2009. Since that time they have remained flat with some growth starting to happen in 2014. The peak in 2011 is primarily due to changes in regulations and reporting.

Fund Discussion

The General Fund is the county's primary operating fund and contains the majority of county programs. This fund is the source of discretionary money derived from local revenue sources such as property tax and available to be spent on local needs.

Forecasting Methodology

Estimated revenues and expenditures are broken out by primary categories. Nine revenue categories and eight expenditure categories were used. These categories were selected based on their percentage of and importance to the General Fund budget.

For revenues, the selected categories are property taxes, Bradley-Burns sales tax, Measure Z sales tax, Measure S cannabis tax, other taxes, other governmental agencies, state aid for public safety, charges for services and other revenues.

The major category of taxes was broken out into five types. This was done because there are significant differences in the factors that influence the assumptions and they comprise a significant portion of discretionary revenues. Property taxes comprise 71 percent of General Fund discretionary revenues, sales taxes 12 percent and other taxes 6 percent.

State aid for public safety (which is typically included in the major category of other governmental agencies) was separated out for the General Fund. This was done because this revenue source makes up 9 percent of total revenues, is significant to public safety and is derived from a state-wide sales tax apportioned to the county based its proportionate share of statewide taxable sales. The remaining other governmental agencies revenue makes up 25 percent of total revenues and is about 90 percent grant related.

Charges for services was maintained as a single category. All revenues of this type are primarily based on fees and as such are directly related to salary and benefit costs.

Other revenue was expanded and includes use of money and property, fines and penalties and licenses and permits. These categories were a small percentage of General Fund revenues and as such were added to other revenue to form one grouping. The combined total is still only 10.5 percent of total revenues. As a group these revenues behave similarly to economic conditions.

For expenditures, the selected categories are salaries and wages, health and other insurance, retirement, services and supplies, Measure Z expenditures, Measure S expenditures, other charges and contributions to other funds.

The major category of salaries and benefits was broken out into three groupings. This was done because there are significant differences in the factors that influence the assumptions and the three groups comprise a significant portion of total expenditures.

Fixed assets were added to services and supplies. This was done because fixed assets are a small percentage of total General Fund expenditures and should have similar assumptions to supplies. Contingencies are included in this group but make up only 1 percent of total expenditures.

Contributions to other funds (which is normally included in the major category of other charges) was separated out for the General Fund. This was done because contributions are 5 percent of total expenditures and include significant factors that warrant being tracked separately.

Other charges make up 7 percent of the General Fund budget. Grant accounts make up about 67 percent of this category. Other notable expenses included in this group are jail medical, assistance payments, debt costs, and court payments to the state.

The number of categories and assumptions was intentionally limited so that the risk of inconsistent assumptions being used to calculate the forecasts was minimized. The benefits of more sophisticated modeling techniques were carefully weighed against ease of use and transparency.

For the General Fund three different forecast scenarios are being provided. The moderate forecast is discussed first and is described as follows:

Moderate - In the moderate or most likely forecast, economic growth is based on a continuation of current trends and policies. The following are some key assumptions used in this scenario:

Revenues

- **Property Taxes** – Assessed property values are estimated by combining the CPI (from the LAO and Department of Finance, which cannot exceed 2.0 for property taxes per Proposition 13) and local growth (sales and new construction). The forecast includes an increase of 3.3 percent in 2017-18, 3.0 percent the following two years and then 2.5 percent for the last two years. Historically Humboldt County assessed values have increased 4.5 percent annually (1.7 from CPI and 2.8 from growth), however increases have not been as strong since the recession. For the last five years local sales and new construction have increased an average of 0.68 percent. Included in that average are two negative growth years; if they are removed the average is over 1.3 percent. For 2017-18 the forecast of 3.3 percent includes a CPI value of 2.0 percent plus 1.3 percent growth. For the next two years a CPI value of 2.0 is projected plus 1 percent growth. After that a mild recession is assumed.

- **Bradley-Burns Sales Tax** – is estimated to increase 10.0 percent above the current adopted budget based on actual revenue received for the first six months of FY 2016-17. An increase of 7.2 percent is forecast for next year, then 5.0 percent, 3.0 percent for two years, and 2.5 percent for the last year. This is based on the sales tax trends from HdL Companies October 2016

California Forecast for FY 2017-18 and Beacon Economics projections.

- **Measure Z Sales Tax** – based on current year trends, this is projected to increase 6 percent for FY 2017-18. This sales tax includes the incorporated cities and does not directly correlate to the Bradley-Burns sales tax. An increase of 5.0 percent is forecast for FY 2018-19, then 3.0 percent for two years, and 2.5 percent for the last year. This is based on the sales tax trends from HdL Companies October 2016 California Forecast for FY 2017-18 and Beacon Economics projections.

- **Measure S Cannabis Tax** – the revenues from this new tax are estimated based on staff's projected number of permits to be issued per year.

- **Other Taxes** – increases are based on current and prior year county revenue trends.

- **Other Governmental Agencies** – has a reduction for one-time capital projects of $16,184,450. No change is assumed for the remaining years. Any change to grant revenue should be offset by a corresponding expenditure increase or decrease.

- **State Aid for Public Safety** – The FY 2016-17 estimated amount is based on actual revenues received in the current and prior fiscal years. For the remaining years the growth is projected at 2.5 percent. Revenue is tied to state sales tax collections. Prior estimates tied it to local sales tax revenue which was higher than the county proportionate share of state sales taxes. Which is why there is a negative adjustment in FY 2016-17.

- **Charges for services** – are assumed to increase at half the rate of changes in salaries and benefits for FY 2017-18 and then at 75 percent. This is based on the lag time between changes in costs and the approval of the fee schedule.

- **Other Revenues** – the increase is based on half of the estimated CPI projected by the LAO and Department of Finance.

Expenditures

- **Salaries and Wages** – are shown for the first year of the forecast with a 1.0 percent increase due to the negotiated salary increase of 2 percent effective January 1, 2017. A change of 0.5 percent is used to account for step and promotional increases. No additional salary increases are included. A salary increase of 1 percent can be assumed to add about $500,000 to annual expenditures.

- **Health and Other Insurance** – are estimated to increase based on estimates for next year's budget preparation and the Risk Management internal service funds five year forecast (See page 43 of this document).

- **Retirement** – projections are based on CalPERS estimates and include lowering the discount rate[1] from 7.5 percent to 7.0 percent over three years starting in FY 2018-19. This results in an increase of 14.2 percent for FY 2018-19, 11.5 percent for FY 2019-20, 10.8 percent for FY 2020-2021 and 4.0 for the final year. This reflects a proportional increase to both safety and miscellaneous plans. The increases due to the change in the discount rate for the moderate forecast were estimated by staff based on current actuarial reports from CalPERS.

- **Services and Supplies** – were increased by $407,500 at first quarter for one-time expenditures, including $350,000 to contingencies for a contribution to reserves in FY 2017-18. There is a decrease from FY 2016-17 of $16.8 million to account for capital projects ($16,184,450), one-time expenses ($702,200) and an additional contribution to contingencies of $250,000. For the remainder of the forecast an increase equal to half the CPI as forecast by the LAO is used.

  Contingencies is included in services and supplies and is maintained at $1.72 million for the five year forecast period. Historically about 35 percent of contingencies has been utilized for unexpected expenditures; the remaining 65 percent is added back into the beginning fund balance.

- **Measure Z Expenditures** – in FY 2016-17 expenditures are increased to reflect the use of Measure Z revenue included in fund balance. For FY 2017-18 and FY 2018-19 expenditures are adjusted to equal actual projected revenues available. It is assumed that all Measure Z revenue will be expended.

- **Measure S Expenditures** – These do not equal revenues because $500,000 is contributed annually to deferred maintenance and/or ADA projects, and there is an annual contribution of $250,000 to contingencies. A portion of leftover contingencies is scheduled to be used to pay down the CalPERS unfunded liability.

- **Other Charges** – are assumed to change by one-half of the CPI based on no increase for the grant portion of charges and CPI on the remainder.

- **Contributions to Other Funds** – are increased by $1.8 million in FY 2016-17 due to one-time funding allocated at first quarter. These one-time expenditures are backed out in FY 2017-18. Additionally contribution to reserves is reduced by $400,000 from $750,000 to $350,000. An additional contribution of $500,000 is added from Measure S funding for deferred maintenance and/or ADA projects. Contribution to reserves is anticipated to be $350,000 for FY 2017-18 and the remainder of the forecast.

[1] Assumed rate of return, calculated by CalPERS. Lowering the rate means employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities.

General Fund - Moderate Forecast Scenario

1100 - General Fund Moderate Forecast Scenario	Adopted Budget 2016-17	Estimated Actual 2016-17	Projected 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22
Beginning Fund Balance	11,224,479	11,224,479	4,805,916	4,070,310	3,001,739	1,322,578	(1,274,782)
Revenues							
Property Taxes	39,564,418	39,564,418	40,870,044	42,096,145	43,359,029	44,443,005	45,554,080
Assumed Change % or $		-	*3.3%*	*3.0%*	*3.0%*	*2.5%*	*2.5%*
Bradley-Burns Sales Tax	5,658,867	6,224,754	6,672,936	7,006,583	7,216,780	7,433,284	7,619,116
Assumed Change % or $		*10.0%*	*7.2%*	*5.0%*	*3.0%*	*3.0%*	*2.5%*
Measure Z Sales Tax	10,427,200	10,427,200	11,052,832	11,605,474	11,953,638	9,276,023	-
Assumed Change % or $			*6.0%*	*5.0%*	*3.0%*	*-22.4%*	*0.0%*
Measure S Cannabis Tax	-	-	1,500,000	3,150,000	5,355,000	7,309,575	9,136,969
Assumed Change % or $			*1,500,000*	*110.0%*	*70.0%*	*36.5%*	*25.0%*
Other Taxes	4,651,000	4,651,000	4,860,295	4,957,501	5,056,651	5,157,784	5,260,940
Assumed Change % or $			*4.5%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Other Govt'l Agencies	26,047,680	26,047,680	9,863,230	9,863,230	9,863,230	9,863,230	9,863,230
Assumed Change % or $			*(16,184,450)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
State Aid Public Safety	10,841,566	10,299,488	10,556,975	10,820,899	11,091,422	11,368,707	11,596,081
Assumed Change % or $		*-5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.0%*
Charges for Services	8,485,089	8,485,089	8,739,642	8,958,133	9,182,086	9,388,683	9,576,457
Assumed Change % or $			*3.0%*	*2.5%*	*2.5%*	*2.3%*	*2.0%*
Other Revenues	12,341,990	12,341,990	12,514,778	12,689,985	12,854,955	13,022,069	13,191,356
Assumed Change % or $			*1.4%*	*1.4%*	*1.3%*	*1.3%*	*1.3%*
Total Revenues	118,017,810	118,041,618	106,630,731	111,147,949	115,932,791	117,262,360	111,798,228
Expenditures							
Salaries & Wages	39,619,585	39,619,585	40,213,879	40,414,948	40,617,023	40,820,108	41,024,209
Assumed Change % or $			*1.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*
Health & Other Insurance	11,390,242	11,390,242	11,515,535	12,114,342	12,707,945	13,330,635	13,997,166
Assumed Change % or $			*1.1%*	*5.2%*	*4.9%*	*4.9%*	*5.0%*
Retirement	11,498,165	11,498,165	12,303,037	14,120,318	15,822,875	17,619,405	18,415,802
Assumed Change % or $			*7.0%*	*14.2%*	*11.5%*	*10.8%*	*4.0%*
Services & Supplies	33,460,040	33,867,540	17,230,890	17,472,122	17,699,260	17,929,350	18,162,432
Assumed Change % or $		*407,500*	*(16,636,650)*	*1.4%*	*1.3%*	*1.3%*	*1.3%*
Measure Z Expenditures	12,102,718	12,702,968	11,387,832	11,605,474	11,953,638	9,276,023	-
Assumed Change % or $		*600,250*	*(1,315,136)*	*217,642*	*3.0%*	*-22.4%*	*0.0%*
Measure S Expenditures	-	-	750,000	2,400,000	4,605,000	6,559,575	8,386,969
Assumed Change % or $			*750,000*	*1,650,000*	*2,205,000*	*1,954,575*	*1,827,394*
Other Charges	8,745,342	8,745,342	8,867,777	8,991,926	9,108,821	9,227,235	9,347,189
Assumed Change % or $			*1.4%*	*1.4%*	*1.3%*	*1.3%*	*1.3%*
Contributions Other Funds	6,116,889	7,936,339	6,216,889	6,216,889	6,216,889	6,216,889	6,216,889
Assumed Change % or $		*1,819,450*	*(1,719,450)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total Expenditures	122,932,981	125,760,181	108,485,838	113,336,020	118,731,452	120,979,220	115,550,656
Net (Over)/Under	(4,915,171)	(7,718,563)	(1,855,107)	(2,188,071)	(2,798,661)	(3,716,860)	(3,752,428)
Ending Fund Balance	6,309,308	3,505,916	2,950,810	1,882,239	203,078	(2,394,282)	(5,027,210)

Forecasting Results

The moderate forecast for the General Fund shows expenditures exceeding revenues for the full five years of the forecast. A negative fund balance develops in the fourth year of the forecast and at the end of five years the fund balance is projected to be negative $5 million. Since the county cannot adopt unbalanced budgets that result in a negative fund balance changes would need to be made.

Property tax values and Measure S revenues are significant factors in the forecast outcome. Each cannabis cultivation permit is projected to generate $18,250 on average per year in tax revenue. The ability to issue permits, as well as the overall health of the cannabis industry will impact the fiscal health of the General Fund.

A change of 1 percent in property tax values is equivalent to approximately $360,000 in revenue. There is potential that property taxes could be lower or higher than projected. Property tax assumptions are based on recent trends in Humboldt County with a conservative growth factor being added to the estimated CPI.

This scenario includes minimal contributions to contingencies and deferred maintenance. Contingencies would remain at $1.7 million which is far lower than the policy level of $6.7 million or 6 percent of FY 2020-21 General Fund revenues. General reserves would be $4.1 million if contributions are made at $350,000 for all five years of the forecast. Per policy reserves should be between 8 to 10 percent of revenues or between $8.9 million and $11.1 million at the end of the forecast period. The contribution for deferred maintenance and Americans with Disabilities Act improvements is set at $500,000 per year. Policy states that annual contributions to deferred maintenance alone should be $1.4 million.

An additional $14.3 million or about $3 million annually for five years would be required to start to meet policy funding levels for general reserves, contingencies and contributions for deferred maintenance. To put this in perspective, an increase of roughly 8 percent in the General Fund share of property taxes would be required to generate $3 million. A sizeable reserve will help ensure that the county can make it through the next economic downturn with minimal disruption in services.

The moderate forecast does not include funding for any additional services or new programs. The only new revenue source it includes is Measure S.

Based on the forecast the General Fund is starting to show improvement, however threats still remain and there are several significant issues around the county that need to be addressed. These are signs the county should watch for and avoid: reoccurring operating deficits; insufficient reserves; fixed costs such as salaries and benefits increasing faster than revenue growth; and balancing the budget with reserves or fund balance.

Changes from Previous Forecast

The primary change in the moderate General Fund forecast from the previous year is an increase in the ending balance after five years of $2.2 million. The current projected ending fund balance is negative $5,051,116 compared to negative $7,283,868 from the previous forecast.

Changes from the previous forecast were primarily due to the following changes:

- $1.7 million decrease in health and other insurance over the five year period. Primarily due to slower growth in health and worker comp insurance costs.

- $18.5 million increase in retirement over the five year period. This is based on estimates from PERS and projected increased resulting from lowering the discount rate by 0.5%.

Increased expenditures were partially offset by an increase in revenues over the five year period due to $8.3 million in additional property tax revenue and $5.3 million in additional sales tax revenue. This is based on higher growth rates for revenues in FY 2016-17 and FY 2017-18.

The reason for doing pessimistic, moderate and optimistic forecast scenarios is to show the potential range of financial conditions the General Fund could face over the next five years. The current projection is between last year's moderate and pessimistic forecasts.

Forecasting Methodology

Pessimistic - In the pessimistic forecast, it is assumed that there will be a recession at the beginning of 2018. This scenario provides a measure of what the impact to the General Fund would be if there were a reduction in discretionary revenues over the five year period. The following key assumptions were changed from the previously described moderate scenario:

Revenues

- **Property Taxes** – growth is projected to increase 2.3 percent the first year and with increases slowly declining during the forecast period. This represents a similar pattern of what happened during the last recession. This could also reflect reductions due to the impacts of legalization of marijuana on property values if growers leave Humboldt County.

- **Bradley-Burns Sales Tax** – is estimated to increase 10.0 percent above the current adopted budget based on actual revenue received for the first six months of FY 2016-17. An increase of 6.2 percent is forecast for next year, then 2.0 percent, 1.0 percent, and no growth for the last two years. This is based on the potential impacts of a recession or a reduction in cannabis farming.

- **Measure Z Sales Tax** – is shown to increase for the first year at the same rate as the moderate forecast, at 50 percent of the moderate forecast for the second year and then decline 1 percent. This is based on the patterns seen in previous recessions. Additionally impacts from legalization of marijuana could have a similar result. Measure Z is assumed to end in the first quarter of FY 2020-21.

- **Measure S Cannabis Tax** – the revenues from this new tax are estimated based on staff's projected number of permits to be issued per year in the moderate forecast for the first three years. For the last two years growth in permits is assumed to slow and then stop.

- **Other Taxes** – are shown to increase for the first year at the same rate as the moderate forecast, at 50 percent of the moderate forecast for the next two years and then have no growth for the last two years. This is based on the patterns seen in previous recessions.

- **Other Governmental Agencies** – has a reduction for one-time capital projects of $16,184,450. No change is assumed for the remaining years. Any change to grant revenue should be offset by a corresponding expenditure increase or decrease.

- **State Aid for Public Safety** – The FY 2016-17 estimated amount is based on actual revenues received in the current and prior fiscal years. The first year is projected at the same rate as the moderate forecast and then at 50 percent of the moderate forecast for the remaining four years. This sales tax is collected state wide and not projected to be impacted by a recession or legalization of cannabis at the same rate as a local tax.

- **Charges for Services** – are projected to grow at half the rate of the moderate forecast starting the second year due to reduced demand which has been the case in other recessions.

- **Other Revenues** – are shown to increase at half the rate of the moderate forecast during the entire five year period.

Expenditures

- **Salaries and Wages** – are shown with the same changes as the moderate forecast for the first year due to negotiated wages. A change of 1 percent is used to account for step and promotional increases for the entire forecast period based on the high end estimate of the salary projection.

- **Health and Other Insurance** – costs are projected to increase by an additional 1 percent from the moderate forecast. The forecast used for the risk management funds was moderate and there is potential that costs could be higher for health, workers comp and liability insurance over the five year period. As an example for 2016 health insurance increased by 12 percent which was twice the previous moderate projection.

- **Retirement** – projections are based on CalPERS estimates and include lowering the discount rate from 7.5 percent to 7.0 percent over three years starting in FY 2018-19. The moderate forecast used actuarial reports to estimate the increases due to the change in the discount rate, the pessimistic forecast is based on estimated impacts provided by CalPERS which showed increases of 30 to 40 percent for unfunded liability payments. This results in an increase of approximately $2.3 million annually phased in over four years, which is equal to a 6 percent raise.

- **Services and Supplies** – were increased by $407,500 at first quarter for one-time expenditures, including $350,000 to contingencies for a contribution to reserves in FY 2017-18. There is a decrease from FY 2016-17 of $16.8 million to account for capital projects ($16,184,450), one-time expenses ($702,200) and an additional contribution to contingencies of $250,000. For the remainder of the forecast an increase equal to the CPI as forecast by the LAO is used.

  Contingencies is included in services and supplies and is maintained at $1.72 million for the five year forecast period. While the moderate forecast assumes 65 percent of contingencies is added back into fund balance for the following year, the pessimistic forecast assumes that after FY 2017-18 all of contingencies are utilized and not carried forward in the fund balance.

- **Measure Z Expenditures** – in FY 2016-17 expenditures are increased to reflect the use of Measure

Z revenue included in fund balance. For FY 2017-18 and FY 2018-19 expenditures are adjusted to equal actual projected revenues available. It is assumed that all Measure Z revenue will be expended.

- **Measure S Expenditures** – These do not equal revenues because $500,000 is contributed annually to deferred maintenance and/or ADA projects, and there is an annual contribution of $250,000 to contingencies. These expenses are contained in contributions other funds and services and supplies. A portion of contingencies could be used to pay down the CalPERS unfunded liability.

- **Other Charges** – are assumed to change by one-half of the CPI based on no increase for the grant portion of charges and CPI on the remainder.

- **Contributions to Other Funds** – are increased by $1.8 million in FY 2016-17 due to one-time funding allocated at first quarter. These one-time expenditures are backed out in FY 2017-18. Additionally contribution to reserves is reduced by $400,000 from $750,000 to $350,000. An additional contribution of $500,000 is added from Measure S funding for deferred maintenance and/or ADA projects. Contribution to reserves is anticipated to be $350,000 for FY 2017-18 and then zero for the remainder of the forecast.

General Fund - Pessimistic Forecast Scenario

1100 - General Fund Pessimistic Forecast Scenario	Adopted Budget 2016-17	Estimated Actual 2016-17	Projected 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22
Beginning Fund Balance	11,224,479	11,224,479	4,805,916	2,452,585	(1,699,235)	(8,429,895)	(18,344,854)
Revenues							
Property Taxes	39,564,418	39,564,418	40,474,400	41,283,888	41,944,430	42,489,707	42,914,604
Assumed Change % or $		-	*2.3%*	*2.0%*	*1.6%*	*1.3%*	*1.0%*
Bradley-Burns Sales Tax	5,658,867	6,224,754	6,610,689	6,742,902	6,810,331	6,810,331	6,810,331
Assumed Change % or $		*10.0%*	*6.2%*	*2.0%*	*1.0%*	*0.0%*	*0.0%*
Measure Z Sales Tax	10,427,200	10,427,200	11,052,832	11,329,153	11,499,090	8,923,294	-
Assumed Change % or $			*6.0%*	*2.5%*	*1.5%*	*-22.4%*	*0.0%*
Measure S Cannabis Tax	-	-	1,500,000	3,150,000	5,355,000	5,890,500	5,890,500
Assumed Change % or $			*1,500,000*	*110.0%*	*70.0%*	*10.0%*	*0.0%*
Other Taxes	4,651,000	4,651,000	4,860,295	4,908,898	4,957,987	4,957,987	4,957,987
Assumed Change % or $			*4.5%*	*1.0%*	*1.0%*	*0.0%*	*0.0%*
Other Govt'l Agencies	26,047,680	26,047,680	9,863,230	9,863,230	9,863,230	9,863,230	9,863,230
Assumed Change % or $			*(16,184,450)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
State Aid Public Safety	10,841,566	10,299,488	10,556,975	10,694,216	10,833,240	10,974,072	11,083,813
Assumed Change % or $		*-5%*	*2.5%*	*1.3%*	*1.3%*	*1.3%*	*1.0%*
Charges for Services	8,485,089	8,485,089	8,739,642	8,853,257	8,968,349	9,075,970	9,166,729
Assumed Change % or $			*3.0%*	*1.3%*	*1.3%*	*1.2%*	*1.0%*
Other Revenues	12,341,990	12,341,990	12,428,384	12,515,383	12,602,990	12,691,211	12,780,050
Assumed Change % or $			*0.7%*	*0.7%*	*0.7%*	*0.7%*	*0.7%*
Total Revenues	118,017,810	118,041,618	106,086,446	109,340,926	112,834,648	111,676,303	103,467,245
Expenditures							
Salaries & Wages	39,619,585	39,619,585	40,213,879	40,616,018	41,022,178	41,432,400	41,846,724
Assumed Change % or $			*1.5%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Health & Other Insurance	11,390,242	11,390,242	11,629,437	12,350,462	13,079,139	13,850,809	14,681,857
Assumed Change % or $			*2.1%*	*6.2%*	*5.9%*	*5.9%*	*6.0%*
Retirement	11,498,165	11,498,165	12,303,037	14,389,385	16,379,006	18,676,817	19,580,401
Assumed Change % or $			*7.0%*	*15.8%*	*12.7%*	*12.9%*	*3.8%*
Services & Supplies	33,460,040	33,867,540	17,070,927	17,548,913	18,005,185	18,473,319	18,953,626
Assumed Change % or $		*407,500*	*(16,796,613)*	*2.8%*	*2.6%*	*2.6%*	*2.6%*
Measure Z Expenditures	12,102,718	12,702,968	11,387,832	11,329,153	11,499,090	8,923,294	-
Assumed Change % or $		*600,250*	*(1,315,136)*	*(58,679)*	*1.5%*	*-22.4%*	*0.0%*
Measure S Expenditures	-	-	750,000	2,400,000	4,605,000	5,140,500	5,140,500
Assumed Change % or $			*750,000*	*1,650,000*	*2,205,000*	*535,500*	-
Other Charges	8,745,342	8,745,342	8,867,777	8,991,926	9,108,821	9,227,235	9,347,189
Assumed Change % or $			*1.4%*	*1.4%*	*1.3%*	*1.3%*	*1.3%*
Contributions Other Funds	6,116,889	7,936,339	6,216,889	5,866,889	5,866,889	5,866,889	5,866,889
Assumed Change % or $		*1,819,450*	*(1,719,450)*	*(350,000)*	*0.0%*	*0.0%*	*0.0%*
Total Expenditures	122,932,981	125,760,181	108,439,777	113,492,746	119,565,308	121,591,263	115,417,186
Net (Over)/Under	(4,915,171)	(7,718,563)	(2,353,332)	(4,151,820)	(6,730,660)	(9,914,960)	(11,949,941)
Ending Fund Balance	6,309,308	3,505,916	2,452,585	(1,699,235)	(8,429,895)	(18,344,854)	(30,294,795)

Forecasting Results

The pessimistic forecast for the General Fund shows how vulnerable the General Fund is to a reduction in property tax growth. The forecast shows that the fund balance becomes negative in FY 2018-19 and continues to go down significantly for the next three years. A structural imbalance is created immediately and continues for the full five years of the forecast. Since the county cannot adopt an unbalanced budget that results in a negative fund balance severe cuts would be required in General Fund programs.

Changes from Previous Forecast

The primary difference in the pessimistic General Fund forecast from the previous year is a reduction in the ending balance of $624,396. The current projected ending fund balance is negative $30,294,795 compared to negative $29,670,399 from the previous forecast. The changes in the pessimistic forecast are primarily due to the same reasons described in the moderate forecast.

Forecasting Methodology

Optimistic - In the optimistic or best-case forecast, economic growth is assumed at a faster pace and retirement and insurance costs are estimated to increase at a lower rate. The following key assumptions were changed from the previously described moderate scenario:

Revenues

- **Property Taxes** – are increased at a faster rate than the moderate forecast with no recession assumed. For the first two years the growth is increased by 0.5 percent from the moderate level and then increased by 1.0 percent to 4.0 percent and maintained at that rate for the remainder of the forecast.

- **Bradley-Burns Sales Tax** – are shown to grow 0.5 percent faster in FY 2017-18 and then 1 percent faster than the moderate scenario for the next four years.

- **Measure Z Sales Tax** – is shown to increase for the first year at 0.5 percent more than the moderate forecast and then by 1.0 percent more than the moderate forecast Measure Z is still assumed to end in the first quarter of FY 2020-21.

- **Measure S Cannabis Tax** – the revenues from this new tax are estimated based on staff's projected number of permits to be issued per year in the moderate forecast for the first two years. For years three and four growth in permits is assumed to be 10 percent more and then return to the same rate as the moderate in year five. This results in 1.2 million more revenue in the last year.

- **Other Taxes** – are shown to grow 0.5 percent faster in FY 2017-18 and then 1 percent faster than the moderate scenario for the next four years. This is based on larger growth for timber yield taxes and transient occupancy taxes (TOT).

- **Other Governmental Agencies** – has a reduction for one-time capital projects of $16,184,450. No change is assumed for the remaining years. Any change to grant revenue should be offset by a corresponding expenditure increase or decrease.

- **State Aid for Public Safety** – The FY 2016-17 estimated amount is based on actual revenues received in the current and prior fiscal years. For the remaining years the growth is projected at the same rate as the moderate forecast or 2.5 percent.

- **Charges for Services** – are projected to grow at the same rate as the moderate forecast. These revenues are tied to salary and benefit costs.

- **Other Revenues** – are shown to increase at the same rate as the moderate forecast during the entire five year period.

Expenditures

- **Salaries and Wages** – are shown with the same changes as the moderate forecast.

- **Health and Other Insurance** – costs are projected to increase at the same rate as the moderate forecast for the first two years and then 0.5 percent less for the remaining three years. The forecast used for the risk management funds was moderate and there is potential that costs could be lower for health, workers comp and liability insurance over the five year period.

- **Retirement** – projections are based on the moderate forecast plus an additional 3.5 percent growth. This is approximately equal to adding an additional 1 percent of payroll annually as a contribution to PARS to pay down the unfunded accrued retirement liability.

- **Services and Supplies** – are shown with the same changes as the moderate forecast for FY 2016-17 and FY 2017-18. Contingencies are included in services and supplies and are increased by $1.5 million in years two, three and four and then by $700,000 in the last year of the forecast period. Historically about 35 percent of contingencies has been utilized for unexpected expenditures. For this scenario 75 percent is added back into the beginning fund balance compared to 65 percent added back in the moderate forecast. In year five contingencies are budgeted at $6.9 million.

- **Measure Z Expenditures** – in FY 2016-17 expenditures are increased to reflect the use of Measure Z revenue included in fund balance. For FY 2017-18 and FY 2018-19 expenditures are adjusted to equal actual projected revenues available. It is assumed that all Measure Z revenue will be expended.

- **Measure S Expenditures** – These do not equal revenues because $500,000 is contributed annually to deferred maintenance and/or ADA projects, and there is an annual contribution of $250,000 to contingencies. A portion of unused contingencies could be used to pay down the CalPERS unfunded liability.

- **Other Charges** – are assumed to be the same as the moderate forecast.

- **Contributions to Other Funds** – are increased by $1.8 million in FY 2016-17 due to one-time funding allocated at first quarter. These one-time expenditures are backed out in FY 2017-18 and the contribution to reserves is reduced by $400,000 from $750,000 to $350,000. An additional contribution of $500,000 is added from Measure S funding for deferred maintenance and/or ADA projects. Contribution to reserves is anticipated to be $350,000 for FY 2017-18 and then is increased by $250,000 in year two and $1,250,000 in years three and four.

General Fund - Optimistic Forecast Scenario

1100 - General Fund Optimistic Forecast Scenario	Adopted Budget 2016-17	Estimated Actual 2016-17	Projected 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22
Beginning Fund Balance	11,224,479	11,224,479	3,855,916	3,892,075	4,568,953	5,630,264	6,869,201
Revenues							
Property Taxes	39,564,418	39,564,418	41,067,866	42,505,241	44,205,451	45,973,669	47,812,616
Assumed Change % or $		-	*3.8%*	*3.5%*	*4.0%*	*4.0%*	*4.0%*
Bradley-Burns Sales Tax	5,658,867	6,224,754	6,704,060	7,106,303	7,390,556	7,686,178	7,955,194
Assumed Change % or $		*10%*	*7.7%*	*6.0%*	*4.0%*	*4.0%*	*3.5%*
Measure Z Sales Tax	10,427,200	10,427,200	11,104,968	11,771,266	12,242,117	9,499,883	-
Assumed Change % or $			*6.5%*	*6.0%*	*4.0%*	*-22.4%*	*0.0%*
Measure S Cannabis Tax	-	-	1,500,000	3,150,000	5,670,000	8,278,200	10,347,750
Assumed Change % or $			*1,500,000*	*110.0%*	*80.0%*	*46.0%*	*25.0%*
Other Taxes	4,651,000	4,651,000	4,883,550	5,030,057	5,180,958	5,336,387	5,496,479
Assumed Change % or $			*5.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
Other Govt'l Agencies	26,047,680	26,047,680	9,863,230	9,863,230	9,863,230	9,863,230	9,863,230
Assumed Change % or $			*(16,184,450)*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
State Aid Public Safety	10,841,566	10,299,488	10,556,975	10,820,899	11,091,422	11,368,707	11,596,081
Assumed Change % or $		*-5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.0%*
Charges for Services	8,485,089	8,485,089	8,739,642	8,958,133	9,182,086	9,388,683	9,576,457
Assumed Change % or $			*3.0%*	*2.5%*	*2.5%*	*2.3%*	*2.0%*
Other Revenues	12,341,990	12,341,990	12,514,778	12,689,985	12,854,955	13,022,069	13,191,356
Assumed Change % or $			*1.4%*	*1.4%*	*1.3%*	*1.3%*	*1.3%*
Total Revenues	118,017,810	118,041,618	106,935,068	111,895,114	117,680,774	120,417,005	115,839,162
Expenditures							
Salaries & Wages	39,619,585	39,619,585	40,213,879	40,414,948	40,617,023	40,820,108	41,024,209
Assumed Change % or $			*1.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*
Health & Other Insurance	11,390,242	11,390,242	11,515,535	12,114,342	12,647,374	13,203,858	13,798,032
Assumed Change % or $			*1.1%*	*5.2%*	*4.4%*	*4.4%*	*4.5%*
Retirement	11,498,165	11,498,165	12,705,472	15,029,113	17,369,897	19,953,061	21,556,788
Assumed Change % or $			*10.5%*	*17.7%*	*15.0%*	*14.3%*	*7.5%*
Services & Supplies	33,460,040	33,867,540	17,230,890	18,471,514	19,709,106	21,423,798	23,373,363
Assumed Change % or $		*407,500*	*(16,636,650)*	*7.2%*	*6.7%*	*8.7%*	*9.1%*
Measure Z Expenditures	12,102,718	12,702,968	11,439,968	11,771,266	12,242,117	9,499,883	-
Assumed Change % or $		*600,250*	*(1,263,000)*	*331,298*	*4.0%*	*-22.4%*	*0.0%*
Measure S Expenditures	-	-	750,000	2,400,000	4,920,000	7,528,200	9,597,750
Assumed Change % or $			*750,000*	*1,650,000*	*2,520,000*	*2,608,200*	*2,069,550*
Other Charges	8,745,342	8,745,342	8,867,777	8,991,926	9,108,821	9,227,235	9,347,189
Assumed Change % or $			*1.4%*	*1.4%*	*1.3%*	*1.3%*	*1.3%*
Contributions Other Funds	6,116,889	7,936,339	6,216,889	6,466,889	7,716,889	8,966,889	8,966,889
Assumed Change % or $		*1,819,450*	*(1,719,450)*	*250,000*	*1,250,000*	*1,250,000*	*0.0%*
Total Expenditures	122,932,981	125,760,181	108,190,410	113,259,998	119,411,225	123,094,832	118,066,470
Net (Over)/Under	(4,915,171)	(7,718,563)	(1,255,341)	(1,364,884)	(1,730,452)	(2,677,826)	(2,227,308)
Ending Fund Balance	6,309,308	3,505,916	2,600,575	2,527,191	2,838,502	2,952,438	4,641,892

Forecasting Results

The optimistic forecast for the General Fund shows an ending fund balance of $4.6 million. This compares to negative $30.3 million under the pessimistic scenario. A projected fund balance that ranges by almost $35 million depending on scenario illustrates the sensitivity of projections to the assumptions used in making them.

Under this scenario General Reserves would be almost $11 million in FY 2021-22 which meets policy levels of a reserve between $9.3 million and $11.5 million. Contingencies would be $6.9 million which also meets the policy level of 6 percent of revenues or $6.9 million. The contribution for deferred maintenance is maintained at $564,250 per year by using $500,000 of Measure S revenue. This is still substantially below the policy level of $1.4 million annually. An additional $4.2 million would be required over the five year period to meet policy funding levels for contributions for deferred maintenance.

This scenario does not include additional services, new programs or funding to meet additional ADA compliance issues. Funding all frozen positions in the General Fund is estimated to require an additional $4.1 million annually. **Even the optimistic scenario does not result in sufficient monies to increase services or fund frozen positions.**

Changes from Previous Forecast

The current optimistic forecast shows improvement compared to last year's forecast results. The previous forecast had an ending balance of $1,202,347 compared to $4,641,892 from the current year forecast. This is an increase of $3.4 million. The change in fund balance, reserves and contingencies represents net increase of about $5 million.

Changes from the previous forecast were primarily due to the following changes:

- $8 million increase in property and other tax revenues over the five year period. Primarily due to continued growth projections.

- $5 million increase in Bradley-Burns local sales tax revenues over the five year period. This is due to higher growth levels for the current fiscal year combined with continued growth over the next five years.

Increased revenues were partially offset by an increase in expenditures over the five year period due to an additional $8.3 million being allocated to help reduce the county's unfunded accrued pension liability.

Fund Discussion

The integrated Department of Health and Human Services (DHHS) operates with six budgeted funds. They are:

- 1110 Social Services Assistance
- 1160 Social Services Administration
- 1170 Mental Health Fund
- 1175 Public Health Fund
- 1180 Alcohol and Other Drugs
- 1190 Employment Training

The financial forecast covers only the largest county funds and funds with significant negative balances. The county administrative staff has reviewed all of the DHHS funds and all of them except for Mental Health and Alcohol and Other Drugs are projected to have positive balances and no noteworthy changes or issues over the five year period.

DHHS largest fund is Social Services Administration with an adopted budget of $85 million for FY 2016-17. The new republican president and administration could have negative impacts on the Social Services fund in the future but this report does not attempt to predict the budgetary decisions that will be made by state and federal elected leaders.

For DHHS this report will focus on Mental Health's two funds: 1170 – Mental Health and 1180 Alcohol and Other Drugs. These funds receive dedicated revenues to oversee and direct behavioral health treatment and support services for Humboldt County. These revenues primarily come from Mental Health Realignment, the Mental Health Services Act, Medi-Cal reimbursement, federal drug and alcohol programs and private insurance.

Forecasting Methodology

Estimated revenues and expenditures are combined for the two funds and broken out by primary categories. Three revenue categories and four expenditure categories were used. These categories were selected based on their percentage of and importance to the Mental Health budget.

For revenues, the selected categories are other governmental agencies, charges for services and other revenues. The Mental Health fund does not receive taxes, fines, or revenue from use of money and property. Revenue from permits was included in other revenues because it represents a small percentage of Mental Health revenues.

For expenditures, the selected categories are salaries and wages, health and other insurance, retirement, and other charges.

The major category of salaries and benefits was broken out into three groupings. This was done because there are significant differences in the factors that influence the assumptions and the three groups comprise a significant portion of total expenditures.

Services and supplies and fixed assets were combined with other charges to create one grouping. This was done because fixed assets are estimated to be less than 1 percent of total Mental Health expenditures and the three accounts should have similar assumptions because they are very closely tied to available funding.

A moderate or most likely forecast was utilized for Mental Health. This scenario assumes a continuation of current trends and policies. The following are some key assumptions used in this scenario:

Revenues

- **Other Governmental Agencies** – has a 3.5 percent increase assumed. This is based on past trends and estimates for realignment revenues.
- **Charges for Services** – are assumed to have no increase. Reimbursement rates for services are anticipated to stay fixed. The majority of reimbursement is from the state and set at a fixed rate.
- **Other Revenues** – the increase is based on half of the estimated CPI projected by the LAO and Department of Finance.

Expenditures

- **Salaries and Wages** – expenses are shown for the first year of the forecast with a 1 percent increase due to the negotiated salary increase of 2 percent effective January 1, 2017. A salary increase of 1 percent can be assumed to add about $150,000 to annual expenditures. A change of 0.5 percent is used to account for step and promotional increases.
- **Health and Other Insurance** – are estimated to increase based on the Risk Management internal service funds five year forecast (included as part of this document).
- **Retirement** – projections are based on CalPERS estimates and include lowering the discount rate from 7.5 percent to 7.0 percent over three years starting in FY 2018-19. This results in an increase of 14.4 percent for FY 2018-19, 11.3 percent for FY 2019-20, 10.6 percent for FY 2020-2021 and 4.0 for the final year. The increases due to the change in the discount rate are based on the General Fund moderate forecast and were estimated by staff based on current actuarial reports from CalPERS.
- **Other Charges** – are assumed not to increase which is based on fixed program funding from state and federal agencies. Salary and benefit costs are anticipated to take up all growth in revenues.

Mental Health	Adopted Budget 2016-17	Estimated Actual 2016-17	Projected 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22
Beginning Fund Balance	(3,990,719)	(3,990,719)	(3,990,719)	(4,157,666)	(4,899,910)	(6,138,869)	(7,911,700)
Revenues							
Other Govt'l Agencies	23,632,104	23,632,104	24,104,746	24,586,841	25,078,578	25,580,149	26,091,752
Assumed Change % or $			*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Charges for Services	14,886,423	14,886,423	14,886,423	14,886,423	14,886,423	14,886,423	14,886,423
Assumed Change % or $			*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Other Revenues	299,074	299,074	302,065	306,294	310,275	314,309	318,395
Assumed Change % or $			*1.0%*	*1.4%*	*1.3%*	*1.3%*	*1.3%*
Total Revenues	38,817,601	38,817,601	39,293,234	39,779,558	40,275,276	40,780,881	41,296,570
Expenditures							
Salaries & Wages	16,862,224	16,862,224	17,115,157	17,200,733	17,286,737	17,373,170	17,460,036
Assumed Change % or $			*1.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*
Health & Other Insurance	4,179,849	4,179,849	4,225,827	4,445,570	4,663,403	4,891,910	5,136,506
Assumed Change % or $			*1.1%*	*5.2%*	*4.9%*	*4.9%*	*5.0%*
Retirement	4,707,780	4,707,780	5,051,448	5,807,751	6,496,347	7,220,884	7,547,268
Assumed Change % or $			*7.3%*	*14.4%*	*11.3%*	*10.6%*	*4.0%*
Other Charges	13,067,748	13,067,748	13,067,748	13,067,748	13,067,748	13,067,748	13,067,748
Assumed Change % or $			*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total Expenditures	38,817,601	38,817,601	39,460,181	40,521,802	41,514,235	42,553,713	43,211,558
Net (Over)/Under	-	-	(166,947)	(742,245)	(1,238,959)	(1,772,831)	(1,914,988)
Ending Fund Balance	(3,990,719)	(3,990,719)	(4,157,666)	(4,899,910)	(6,138,869)	(7,911,700)	(9,826,688)

Forecasting Results

The Mental Health funds start the forecast with a negative fund balance. The negative balance is due to significant delays in the receipt of revenues from the state. If there was a change at the local or state level that resulted in funds due to the county being remitted in a timelier manner the fund balance would most likely become positive.

Over the forecast period revenues are projected to be below expenditures. This results in fund balance situation becoming even more negative over the next five years. Most likely adjustments would be made to expenditures to ensure a balanced budget.

Potential risks to this fund are reductions in state or federal funding for mental health and alcohol and drug programs and increased demand for services.

The Department of Health and Human Services is an integrated agency which administers six funds. For purposes of cash flow management and planning the combined fund balance is used. This approach helps provide a buffer against negative fluctuations in any single fund.

Changes from Previous Forecast

The primary change in the Mental Health forecast from the previous year is a decrease in the fund balance of $513,250. The current estimated ending fund balance is negative $9,826,688 compared to negative $9,313,438 from the previous forecast. This is due to expenditures exceeding revenues for the full five years of the forecast. Projections for expenditures are higher due to negotiated salary increases and anticipated higher benefit costs. Revenues from other governmental agencies are shown to remain constant at 2 percent for the forecast period.

Fund Discussion

The Roads Fund is a special revenue fund established according to state law to account for revenues that are legally restricted for county road purposes. The Roads Fund is primarily funded by state fuel taxes and property taxes as well as federal and state grants.

Forecasting Methodology

Estimated revenues and expenditures are broken out by primary categories. Five revenue categories and six expenditure categories were used. These categories were selected based on their percentage of and importance to the Roads budget.

For revenues, the selected categories are taxes, other governmental agencies, highway users taxes, charges for services and other revenues.

Highway user taxes (which are typically included in the major category of other governmental agencies) were separated out. This was done because this revenue source makes up 23 percent of total revenues and 61 percent of discretionary revenues for the Roads fund. The remaining other governmental agencies revenue makes up 48 percent of total revenues and is primarily allocated for specific road construction projects.

Taxes and charges for services were maintained as single categories.

Other revenue was expanded and includes use of money and property, fines and penalties and licenses and permits. These categories were a small percentage of Roads revenues and as such were added to other revenue to form one grouping. The combined total is still only 5 percent of total revenues.

For expenditures, the selected categories are salaries and wages, health and other insurance, retirement, services and supplies, contracts and other charges.

The major category of salaries and benefits was broken out into three groupings. This was done because there are significant differences in the factors that influence the assumptions and the three groups comprise a significant portion of total expenditures.

Funding for contracts was included as a separate category and is directly related to the other governmental revenues dedicated for projects.

Services and supplies and other charges were kept as major categories.

A moderate or most likely forecast was utilized for the Roads fund. This scenario assumes a continuation of current trends and policies. The following are some key assumptions used in this scenario:

Revenues

- **Taxes** – are estimated to increase at 2.8 percent in 2017-18, 2.5 percent for the next two years and then 2 percent for the last two years. This is based on past trends in Humboldt County. The estimates are 0.5% less than the General Fund moderate forecast for property taxes due to differences in allocation formulas and the type of tax revenues received by the Roads fund.

- **Other Governmental Agencies** – has a decrease of $209,418 to the estimated actual for FY 2016-17 and then a further decrease for the first year of the forecast of $3.5 million. This reflects the current projected construction schedule. For the remainder of the forecast an increase of 1.9 percent is used. This is based on prior trends and staff projections. Net impacts from changes to this category are assumed to be minimal because they would be offset with reduced or increased project costs.

- **Highway User Taxes (HUTA)** – are based on projections from the California Department of Finance for the current fiscal year with no increase projected for the five years of the forecast. About half of the total HUTA revenues are derived from the price based excise tax that replaced the sales tax on gasoline. This tax is designed to be revenue neutral with the former sales tax and fluctuates based on fuel prices.

- **Charges for Services** – are assumed to increase at 0.7 percent per department estimates.

- **Other Revenues** – are anticipated to be fixed for the five year period.

Expenditures

- **Salaries and Wages** – are shown for the first year of the forecast with a 1 percent increase due to the negotiated salary increase of 2 percent effective January 1, 2017. No other increases are projected. A salary increase of 1 percent can be assumed to add about $75,000 to annual expenditures.

- **Health and Other Insurance** – are estimated to increase based on the Risk Management internal service funds five year forecast (included as part of this document).

- **Retirement** – projections are based on CalPERS estimates and include lowering the discount rate from 7.5 percent to 7.0 percent over three years starting in FY 2018-19. This results in an increase of 14.4 percent for FY 2018-19, 11.3 percent for FY 2019-20, 10.6 percent for FY 2020-2021 and 4.0 for the final year. All Roads employees are under the miscellaneous plan. The increases due to the change in the discount rate are based on the General Fund moderate forecast and were estimated by staff based on current actuarial reports from CalPERS.

- **Services and Supplies** – are adjusted down in the current fiscal year based on actual estimates. For the remainder of the forecast an increase of 2 percent annually is projected.

- **Contracts** – are increased in FY 2016-17 based on the current construction schedule, reduced for FY 2017-18 and then assumed not to change for the remainder of the forecast.
- Other Charges – are assumed to remain at the same level for the five years of the forecast.

1200 - Roads Fund	Adopted Budget 2016-17	Estimated Actual 2016-17	Projected 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22
Beginning Fund Balance	4,356,975	4,356,975	1,980,926	(868,077)	(3,996,130)	(7,378,314)	(11,040,949)
Revenues							
Taxes	2,621,400	2,646,531	2,720,634	2,788,650	2,858,366	2,915,533	2,973,844
Assumed Change % or $		*25,131*	*2.8%*	*2.5%*	*2.5%*	*2.0%*	*2.0%*
Other Govt'l Agencies	11,046,231	10,836,813	7,285,407	7,423,830	7,564,882	7,708,615	7,855,079
Assumed Change % or $		*(209,418)*	*(3,551,406)*	*1.9%*	*1.9%*	*1.9%*	*1.9%*
Highway Users Tax	4,251,958	4,462,500	4,462,500	4,462,500	4,462,500	4,462,500	4,462,500
Assumed Change % or $		*210,542*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Charges for Services	1,401,537	1,401,537	1,411,348	1,421,227	1,431,176	1,441,194	1,451,282
Assumed Change % or $		*0.0%*	*0.7%*	*0.7%*	*0.7%*	*0.7%*	*0.7%*
Other Revenues	106,600	106,600	106,600	106,600	106,600	106,600	106,600
Assumed Change % or $			*0%*	*0%*	*0.0%*	*0.0%*	*0.0%*
Total Revenues	19,427,726	19,453,981	15,986,489	16,202,807	16,423,524	16,634,443	16,849,305
Expenditures							
Salaries & Wages	5,341,343	5,341,343	5,394,756	5,394,756	5,394,756	5,394,756	5,394,756
Assumed Change % or $		*0.0%*	*1.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Health & Other Insurance	1,326,056	1,326,056	1,340,643	1,410,356	1,479,463	1,551,957	1,629,555
Assumed Change % or $		*0.0%*	*1.1%*	*5.2%*	*4.9%*	*4.9%*	*5.0%*
Retirement	1,504,845	1,504,845	1,614,398	1,846,871	2,055,567	2,273,458	2,364,396
Assumed Change % or $		*0.0%*	*7.3%*	*14.4%*	*11.3%*	*10.6%*	*4.0%*
Services & Supplies	13,870,207	9,469,653	9,659,046	9,852,227	10,049,272	10,250,257	10,455,262
Assumed Change % or $		*(4,400,554)*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Contracts	799,426	4,149,980	788,496	788,496	788,496	788,496	788,496
Assumed Change % or $		*3,350,554*	*-81.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Other Charges	975,653	975,653	975,653	975,653	975,653	975,653	975,653
Assumed Change % or $		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total Expenditures	23,817,530	22,767,530	19,772,992	20,268,360	20,743,208	21,234,577	21,608,119
Net (Over)/Under	(4,389,804)	(3,313,549)	(3,786,503)	(4,065,553)	(4,319,684)	(4,600,135)	(4,758,813)
Ending Fund Balance	(32,829)	1,043,426	(1,805,577)	(4,933,630)	(8,315,814)	(11,978,449)	(15,799,762)

Forecasting Results

The forecast for Roads shows that the fund will develop a negative fund balance the first year. This is primarily due to revenues not keeping up with expenditures. Reductions in HUTA due to decreasing gas prices and the "true-up" process are anticipated to impact revenues and make forecasting difficult.

This fund appears to have a structural gap that will need to be addressed next fiscal year to prevent a negative balance from developing. Ongoing costs need to be aligned with available funding. Potential risks to the fund include fluctuations in the cost and demand for motor fuel that impact HUTA revenues and increasing material costs. Also most roads grant funding requires a local match component and construction projects could be impacted if local funds are not available.

Changes from Previous Forecast

The current estimated ending balance for the Roads Fund is negative $15,799,762 compared to negative $482,547 from the previous forecast. This is primarily due to differences between the adopted FY 2016-17 budget and the previous forecast for the same year. The forecast projected using $2.1 million in fund balance compared to the actual adopted budget for FY 2016-17 which used $4.4 million. The projected ongoing structural deficit has increased significantly from the previous forecast. If additional revenues are not made available by the state substantial cuts will most likely be required to balance the FY 2017-18 budget.

Fund Discussion

The Humboldt County Library is a special taxing authority and as such, the fund's operations are primarily financed through its share of property tax. The Library serves the county's residents through a main library in Eureka, 10 branch libraries and one bookmobile.

Forecasting Methodology

Estimated revenues and expenditures are broken out by primary categories. Four revenue categories and five expenditure categories were used. These categories were selected based on their percentage of and importance to the Library budget.

For revenues, the selected categories are taxes, other governmental agencies, library services-fines, and other revenues.

Taxes, other governmental agencies and charges for services were maintained as single categories. The Library does not have any revenues from penalties or licenses and permits. Revenues from library late fines are included with library services-fines.

Other revenue was expanded and includes use of money and property. This category was less than 1 percent of Library revenues and as such was added to other revenue to form one grouping. The county General Fund contribution accounts for about 60 percent of other revenues. This amount has been reduced by about 30 percent since the recession due to budget cuts in the General Fund. The General Fund forecast does not include an increase to the amount contributed to the Library.

For expenditures, the selected categories are salaries and wages, health and other insurance, retirement, services and supplies, and other charges.

The major category of salaries and benefits was broken out into three groupings. This was done because there are significant differences in the factors that influence the assumptions and the three groups comprise a significant portion of total costs. Services and supplies and other charges were kept as separate major categories.

A moderate or most likely forecast was utilized for the Library fund. This scenario assumes a continuation of current trends and policies. The following are some key assumptions:

Revenues

- **Taxes** – are estimated to increase at 2.8 percent in 2017-18, 2.5 percent for the next two years and then 2 percent for the last two years. This is based on past trends in Humboldt County. The estimates are 0.5% less than the General Fund moderate forecast for property taxes due to differences in allocation formulas and the type of tax revenues received by the Library.

- **Other Governmental Agencies** – is projected with no growth. These revenues are primarily fixed or grant related.

- **Library Services and Fines** – are shown with no growth for the five year forecast. This based on departmental projections and historical trends.

- **Other Revenues** – are forecast with no change over the five year period. These revenues are primarily fixed and include donations and grants from non-governmental agencies.

Expenditures

- **Salaries and Wages** – are reduced from the adopted FY 2016-17 budget by $130,000 to reflect salary reductions due to long term employees retiring and being replaced at lower salary rates. Expenses are shown for the first year of the forecast with a 1 percent increase due to the negotiated salary increase of 2 percent effective January 1, 2017. A salary increase of 1 percent can be assumed to add about $17,000 to annual expenditures.

- **Health and Other Insurance** – are estimated to increase based on the Risk Management internal service funds five year forecast (included as part of this document).

- **Retirement** – projections are based on CalPERS estimates and include lowering the discount rate from 7.5 percent to 7.0 percent over three years starting in FY 2018-19. This results in an increase of 14.4 percent for FY 2018-19, 11.3 percent for FY 2019-20, 10.6 percent for FY 2020-2021 and 4.0 for the final year. All Library employees are under the miscellaneous plan. The increases due to the change in the discount rate are based on the General Fund moderate forecast and were estimated by staff based on current actuarial reports from CalPERS.

- **Services and Supplies** – are reduced by 5 percent in FY 2017-18 due to the elimination of one-time expenses for fixed assets. Cost for the next four years are shown with a 2 percent increase. This is based on projection from the department and historical trends.

- **Other Charges** – are assumed to increase by 2 percent annually for charges from county internal service funds and A-87. These charges are primarily tied to salary and benefit expenses.

1500 - Library Fund	Adopted Budget 2016-17	Estimated Actual 2016-17	Projected 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22
Beginning Fund Balance	339,920	339,920	220,382	150,905	31,621	(129,671)	(347,795)
Revenues							
Taxes	2,275,472	2,275,472	2,339,185	2,397,665	2,457,606	2,506,759	2,556,894
Assumed Change % or $			*2.8%*	*2.5%*	*2.5%*	*2.0%*	*2.0%*
Other Govt'l Agencies	395,106	395,106	395,106	395,106	395,106	395,106	395,106
Assumed Change % or $			*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Library Services-Fines	65,000	65,000	65,000	65,000	65,000	65,000	65,000
Assumed Change % or $			*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Other Revenues	601,986	601,986	601,986	601,986	601,986	601,986	601,986
Assumed Change % or $			*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total Revenues	3,337,564	3,337,564	3,401,277	3,459,757	3,519,698	3,568,851	3,618,986
Expenditures							
Salaries & Wages	1,598,638	1,468,638	1,483,324	1,483,324	1,483,324	1,483,324	1,483,324
Assumed Change % or $		*(130,000)*	*1.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Health & Other Insurance	397,996	397,996	402,374	423,297	444,039	465,797	489,087
Assumed Change % or $			*1.1%*	*5.2%*	*4.9%*	*4.9%*	*5.0%*
Retirement	418,353	418,353	448,893	513,533	571,563	632,148	657,434
Assumed Change % or $			*7.3%*	*14.4%*	*11.3%*	*10.6%*	*4.0%*
Services & Supplies	848,490	848,490	806,066	822,187	838,631	855,403	872,511
Assumed Change % or $			*-5.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Other Charges	323,625	323,625	330,098	336,699	343,433	350,302	357,308
Assumed Change % or $			*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Total Expenditures	3,587,102	3,457,102	3,470,754	3,579,041	3,680,990	3,786,975	3,859,665
Net (Over)/Under	(249,538)	(119,538)	(69,477)	(119,285)	(161,291)	(218,124)	(240,679)
Ending Fund Balance	90,382	220,382	150,905	31,621	(129,671)	(347,795)	(588,474)

Forecasting Results

The forecast for the Library Fund indicates that expenses are projected to exceed the fund's available revenue sources. The forecast shows the fund having a negative balance starting the third year of the forecast. The budget for next year will need to prevent a negative balance from developing. The Library has been utilizing fund balance and one-time funding in an effort to maintain current levels of service since the recession.

Salary and benefit costs make up about 70 percent of the Library's total expenditures, and property taxes make up about 70 percent of total revenues. Property tax growth is not keeping up with salary and benefit costs. The department has been working to develop a long-term plan that will balance revenues with expenditures and prevent the fund from developing a negative balance.

A potential risk to the fund is a recession resulting in slower than projected growth in property taxes. Another challenge is that grants and donations make up a large portion of the Library's discretionary spending and the funding sources can vary significantly. Additionally, the Library forecast does not include a contingency account or reserves. Based on policy the Library should have contingencies of about $200,000. The Library does have a dedicated trust fund (9680 – Library Memorials Trust) that contains donations. The balance in this trust as of June 30, 2016 was $253,740.

Changes from Previous Forecast

The current estimated ending balance for the Library Fund is negative $588,474 compared to negative $1,152,928 from the previous forecast. This is primarily due to decreased salary costs in FY 2016-17. The projected ongoing structural deficit also decreased compared to the previous forecast. This forecast is more in line with the 2015 Financial Forecast which projected an ending balance of negative $485,186. This demonstrates that small changes can have a big impact when compounded over five years.

Fund Discussion

The Risk Management funds are internal service funds, which are used to account for the financing of goods or services provided by one department of a governmental agency to other departments of the same agency on a cost-reimbursement basis. Human Resources administers all employee benefit programs, self-insured and premium-based insurance plans.

Forecasting Methodology

For Risk Management charges to departments and insurance expenses are forecast for six funds. The assumptions for each fund are:

- **Workers Compensation** – insurance costs are anticipated to increase at 2 percent annually for the five years of the forecast. A reduction of $600,000 in expenses is shown to account for the removal of a refund to departments that was included in FY 2016-17.

- **Liability Insurance** – has experienced significant increases in expenses over the last few years. Additionally due to required reserves for claims the fund has developed a negative balance. Charges to departments are shown have 5 percent increase for the full forecast period. Expenses are assumed to grow 4 percent the first two years of the forecast and then 5 percent annually.

- **Medical Plan** – charges are increased by 3 percent for the first year, 6.5 percent for the year and then 6 percent for the last 3 years. Charges and expenses are estimated to increase at about the same rate.

- **Dental Plan** – in prior years expenses exceeded revenues and charges to departments were increased to eliminate the negative fund balance. The fund balance is now positive and charges can be lowered. It is anticipated that charges will be reduced by 4 percent in FY 2017-18 and then remain constant. Expenses for the Dental Plan are projected with 1 percent growth.

- **Unemployment Insurance** – previously charges were increased to eliminate a negative fund balance. The fund balance is now positive and it is projected that charges will be reduced by 35 percent in FY 2017-18 and then remain constant. Expenses are assumed to increase 2 percent annually starting in FY 2016-17.

- **Purchased Insurance** – charges are anticipated to increase at 2 percent annually for the five years of the forecast. A reduction of $300,000 in expenses is shown to account for the removal of a refund to departments that was included in FY 2016-17.

	Adopted Budget 2016-17	Estimated Actual 2016-17	Projected 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22
Workers Compensation							
Beginning Fund Balance	2,034,867	2,034,867	1,415,589	1,508,511	1,518,852	1,529,400	1,540,159
Charges to Departments	5,610,000	5,610,000	5,722,200	5,836,644	5,953,377	6,072,444	6,193,893
% Change - Revenues			*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Insurance Expense	6,229,278	6,229,278	5,629,278	5,826,303	5,942,829	6,061,685	6,182,919
% Change - Expenditures			*(600,000)*	*3.5%*	*2.0%*	*2.0%*	*2.0%*
Net (Over)/Under	(619,278)	(619,278)	92,922	10,341	10,548	10,759	10,974
Ending Fund Balance	1,415,589	1,415,589	1,508,511	1,518,852	1,529,400	1,540,159	1,551,134
Liability Insurance							
Beginning Fund Balance	(128,872)	(128,872)	(186,338)	(218,952)	(224,361)	(230,042)	(236,006)
Charges to Departments	3,073,579	2,715,096	2,850,851	2,993,393	3,143,063	3,300,216	3,465,227
% Change - Revenues		*(358,483)*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Insurance Expense	2,772,562	2,772,562	2,883,464	2,998,803	3,148,743	3,306,180	3,471,489
% Change - Expenditures			*4.0%*	*4.0%*	*5.0%*	*5.0%*	*5.0%*
Net (Over)/Under	301,017	(57,466)	(32,614)	(5,410)	(5,680)	(5,964)	(6,262)
Ending Fund Balance	172,145	(186,338)	(218,952)	(224,361)	(230,042)	(236,006)	(242,268)
Medical Plan							
Beginning Fund Balance	(691,986)	(691,986)	(408,606)	(116,725)	85,126	65,821	45,358
Charges to Departments	21,449,011	21,449,011	22,092,481	23,528,493	24,940,202	26,436,614	28,022,811
% Change - Revenues			*3.0%*	*6.5%*	*6.0%*	*6.0%*	*6.0%*
Insurance Expense	21,165,631	21,165,631	21,800,600	23,326,642	24,959,507	26,457,077	28,044,502
% Change - Expenditures			*3.0%*	*7.0%*	*7.0%*	*6.0%*	*6.0%*
Net (Over)/Under	283,380	283,380	291,881	201,851	(19,305)	(20,463)	(21,691)
Ending Fund Balance	(408,606)	(408,606)	(116,725)	85,126	65,821	45,358	23,668

	Adopted Budget 2015-16	Estimated Actual 2015-16	Projected 2016-17	Projected 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21
Dental Plan							
Beginning Fund Balance	457,639	457,639	459,836	403,264	332,021	245,961	144,935
Charges to Departments	1,469,237	1,469,237	1,410,468	1,410,468	1,410,468	1,410,468	1,410,468
% Change - Revenues			*-4.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Insurance Expense	1,467,040	1,467,040	1,467,040	1,481,710	1,496,528	1,511,493	1,526,608
% Change - Expenditures			*0.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Net (Over)/Under	2,197	2,197	(56,572)	(71,243)	(86,060)	(101,025)	(116,140)
Ending Fund Balance	459,836	459,836	403,264	332,021	245,961	144,935	28,795
Unemployment Insurance							
Beginning Fund Balance	693,812	693,812	835,972	861,003	882,320	899,847	913,510
Charges to Departments	324,249	324,249	210,762	210,762	210,762	210,762	210,762
% Change - Revenues			*-35%*	*0%*	*0%*	*0%*	*0%*
Insurance Expense	182,089	182,089	185,731	189,445	193,234	197,099	201,041
% Change - Expenditures			*2%*	*2%*	*2%*	*2%*	*2%*
Net (Over)/Under	142,160	142,160	25,031	21,316	17,528	13,663	9,721
Ending Fund Balance	835,972	835,972	861,003	882,320	899,847	913,510	923,231
Purchased Insurance							
Beginning Fund Balance	409,950	409,950	68,872	40,642	11,848	(3,579)	(5,371)
Charges to Departments	642,414	642,414	655,262	668,368	681,735	695,370	709,277
% Change - Revenues			*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Insurance Expense	983,492	983,492	683,492	697,162	697,162	697,162	697,162
% Change - Expenditures			*(300,000)*	*2.0%*	*0.0%*	*0.0%*	*0.0%*
Net (Over)/Under	(341,078)	(341,078)	(28,230)	(28,794)	(15,427)	(1,792)	12,115
Ending Fund Balance	68,872	68,872	40,642	11,848	(3,579)	(5,371)	6,744

	Adopted Budget 2015-16	Estimated Actual 2015-16	Projected 2016-17	Projected 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21
Total Insurance Funds							
Total Ending Fund Balances	2,543,808	2,185,325	2,477,744	2,605,805	2,507,409	2,402,586	2,291,303
Total Charges to Departments	32,568,490	32,210,007	32,942,024	34,648,127	36,339,606	38,125,874	40,012,438
% Net Change			1.1%	5.2%	4.9%	4.9%	4.9%

Forecasting Results

After the recession, rates charged departments for most insurance benefits were set below actual costs resulting in many of the funds developing negative balances. Charges were increased over the last few years and now most funds have developed positive balances and the charges can be reduced to reflect actual current costs. It is important to maintain positive fund balances and appropriate reserves to insure the long-term financial stability of the Risk Management funds.

Changes from Previous Forecast

Total insurance costs and charges to departments are shown to increase more than in the previous forecast. At the end of the five year period, estimated charges are about $3.4 million more than the prior forecast. This is primarily due to charges to departments being increased for workers comp and health insurance based on actual premiums which were not known when last year forecast was developed.

Fund Discussion

The Aviation Fund is a county enterprise fund, defined as a governmental fund where operations are financed and operated in a manner similar to a private business. The costs of operating the county's six airports should be fully supported through user charges. The Aviation Division is part of the Public Works Department.

Forecasting Methodology

Estimated revenues and expenditures are broken out by primary categories. Two revenue categories and five expenditure categories were used. These categories were selected based on their importance to the Aviation budget.

For revenues, the selected categories are operating revenues and fuel sales. Aviation does not receive taxes, fines, or revenue from use of money and property.

Operating revenues are derived from fees and charges for services at the airport, such as rental charges and landing fees.

The largest single source of revenue for Aviation is the sale of aircraft fuel. This single activity is currently estimated to account for about 24 percent of annual revenues. Prior to FY 2013-14 fuel sales accounted for more than 40 percent of revenues.

For expenditures, the selected categories are salaries and wages, health and other insurance, retirement, services and supplies, and other charges.

The major category of salaries and benefits was broken out into three groupings. This was done because there are significant differences in the factors that influence the assumptions and the three groups comprise a significant portion of total expenditures.

Fixed assets were added to services and supplies. This was done because fixed assets are estimated to be about 2 percent of total Aviation expenditures and should have similar assumptions to supplies.

A moderate or most likely forecast was utilized for Aviation. This scenario assumes a continuation of current trends and policies, which includes no additional airline service. The following are some key assumptions used in this scenario:

Revenues

- **Operating Revenues** – are adjusted down by $180,750 in FY 2016-17 to remove the budgeted loan of $246,500 and add an adjustment for additional anticipated revenues of $65,750. In FY 2017-18 revenues are reduced by $940,294 for one-time revenues as follows: $700,000 grant, $64,794 insurance refund, $125,000 loan for restaurant upgrades, $35,000 trust transfer for fuel truck, $15,500 General Fund contribution for fuel system. Remaining estimates are based on existing airline service with an increase of 3.4 percent or

$57,000 for additional landing fee revenue from Pen Air starting in FY 2018-19 and then an annual increase equal to half of the CPI as forecast by the LAO.

- **Fuel Sales** – are anticipated to increase by $108,000 in the current fiscal year based on estimates from Public Works. For the remained of the forecast an increase of 2 percent annually is used.

Expenditures

- **Salaries and Wages** – are shown for the first year of the forecast with a 1 percent increase due to the negotiated salary increase of 2 percent effective January 1, 2017. A salary increase of 1 percent can be assumed to add about $7,000 to annual expenditures.

- **Health and Other Insurance** – are estimated to increase based on the Risk Management internal service funds five year forecast (included as part of this document).

- **Retirement** – projections are based on CalPERS estimates and include lowering the discount rate from 7.5 percent to 7.0 percent over three years starting in FY 2018-19. This results in an increase of 14.2 percent for FY 2018-19, 11.5 percent for FY 2019-20, 10.8 percent for FY 2020-2021 and 4.0 for the final year. This reflects a proportional increase to both safety and miscellaneous plans. The increases due to the change in the discount rate are the same as the General Fund moderate forecast.

- **Service and Supplies** – are reduced by $274,500 in FY 2017-18 for one-time fixed asset expenditures related to building improvements and equipment replacement and upgrades. Expenses are then shown to increase 2 percent annually based on departmental projections. In FY 2021-22 there is a reduction of $140,000 reflecting the end of Measure Z funding for security services.

- **Other Charges** – the increase is based on half of the estimated CPI projected by the LAO and Department of Finance. Aviation adjusts half of their fees each year by the CPI.

3530 - Aviation Fund	Adopted Budget 2016-17	Estimated Actual 2016-17	Projected 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22
Beginning Fund Balance	(545,243)	(545,243)	(554,163)	(532,851)	(498,268)	(480,199)	(481,658)
Revenues							
Operating Revenues	2,742,264	2,561,514	1,621,220	1,676,341	1,699,810	1,721,908	1,744,293
Assumed Change % or $		*(180,750)*	*(940,294)*	*3.4%*	*1.4%*	*1.3%*	*1.3%*
Fuel Sales	662,000	770,000	785,400	801,108	817,130	833,473	850,142
Assumed Change % or $		*108,000*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Total Revenues	3,404,264	3,331,514	2,406,620	2,477,449	2,516,940	2,555,381	2,594,435
Expenditures							
Salaries & Wages	585,923	585,923	591,782	591,782	591,782	591,782	591,782
Assumed Change % or $			*1.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Health & Other Insurance	160,477	160,477	162,242	170,679	179,042	187,815	197,206
Assumed Change % or $			*1.1%*	*5.2%*	*4.9%*	*4.9%*	*5.0%*
Retirement	167,847	167,847	179,596	205,099	228,685	253,383	263,519
Assumed Change % or $			*7.0%*	*14.2%*	*11.5%*	*10.8%*	*4.0%*
Services & Supplies	1,309,738	1,309,738	1,035,238	1,055,943	1,077,062	1,098,603	1,238,603
Assumed Change % or $			*(274,500)*	*2.0%*	*2.0%*	*2.0%*	*140,000*
Other Charges	1,116,449	1,116,449	416,449	419,364	422,300	425,256	428,233
Assumed Change % or $			*(700,000)*	*0.7%*	*0.7%*	*0.7%*	*0.7%*
Total Expenditures	3,340,434	3,340,434	2,385,308	2,442,867	2,498,871	2,556,839	2,719,342
Net (Over)/Under	63,830	(8,920)	21,312	34,583	18,069	(1,459)	(124,907)
Ending Fund Balance	(481,413)	(554,163)	(532,851)	(498,268)	(480,199)	(481,658)	(606,565)

Forecasting Results

The current forecast shows revenues exceeding expenditures for the first three years of the forecast, then a deficit occurs for the last two years. This is primarily due to funding from Measure Z, additional revenues from a second airline providing service and increased fuel sales due to a new automated fuel station.

The Aviation Fund first developed a negative fund balance in FY 2011-12. The effects of the recession combined with the loss of a second airline negatively impacted Aviation's revenues. This resulted in the Aviation Fund having a structural deficit that resulted in a negative balance.

Aviation then experienced another significant loss in revenue due to the Coast Guard installing their own fueling system and no longer purchasing fuel from the airport. This change resulted in an annual net loss of about $250,000 in revenues. Aviation has previously cut staffing levels and discretionary expenses and increased fees where reasonable and has not been able to compensate for lost revenue.

Changes from Previous Forecast

The Aviation forecast shows significant improvement of over $3.2 million from the previous year. The current projected ending fund balance is negative $606,565 compared to negative $3,862,094 from the previous forecast. This is primarily due to increases in revenues as described above. Additionally changes between the adopted FY 2015-16 budget and actual results reduced the negative balance.

The negative cash balance in the Aviation Fund raises concern. This is because enterprise funds are classified by accounting standards as "business-type activities" and should be self-supporting. The significant change from the prior forecast shows how a relatively small change in revenues or expenses can impact the fund balance over a five year period.

The Aviation Fund needs to operate with a positive cash flow. The current forecast includes a contribution from the General Fund from Measure Z and without this additional support Aviation would have most likely still have a structural deficit. This projection includes that support for four years, which may not be realistic.

Conclusion

The five year financial forecast results indicate that overall most of the county's funds are experiencing some level of financial distress. Some level of structural change will be required for most of the funds to maintain a positive fund balance over the next five years. Property taxes are a significant revenue source for the General Fund, Roads Fund and Library Fund. Since the last recession the growth in local property tax revenue has slowed significantly. From 2003 through 2008 assessed property values increased on average 8 percent annually compared to 2 percent from 2009 to 2015. Based on current economic trends it is unlikely that property tax revenue growth will return to previous level highs in the next five years in Humboldt County.

The General Fund contains the majority of county programs and receives discretionary revenues primarily from property taxes. Unfortunately the General Fund forecast shows a trend of costs growing faster than revenues. It does not appear that revenue growth alone is going to be sufficient to solve the problem. Over the next five years the county will need to address the structural imbalance that has developed through fundamental restructuring. Possible options identified in the last financial forecast were: changes to services levels, addressing pension and retirement liabilities, process improvements and service consolidation. Since that time the county has taken initial steps towards balancing resources with demand by allocating resources to set up a trust account to pay down accrued unfunded retirement liabilities and making additional contributions to reserves.

Fortunately the forecast process provides an advance look at the county's financial health in time for corrective action to be taken.

Appendix A - Acronyms

Below are definitions of acronyms used in the Financial Forecast:

ACV – California Redwood Coast Humboldt County Airport: Humboldt County's regional airport offering commercial air service. Located about 20 miles north of Eureka.

ADA – Americans with Disabilities Act: is a federal law that prohibits unjustified discrimination based on disability, requires covered employers to provide reasonable accommodations to employees with disabilities, and imposes accessibility requirements on public accommodations.

AUMA – Adult Use of Marijuana Act: is a voter initiative that was passed by voters in 2016 to legalize recreational use of cannabis in California.

CPI – Consumer Price Index: A government-issued growth factor based on the retail prices of basic household goods and services.

DHHS – Department of Health and Human Services: An integrated County department providing health and human services previously provided by six separate county departments – Mental Health, Public Health, Social Services, Employment Training, Veterans Services and Public Guardian.

DOF – State Department of Finance: A California department that provides information about the state budget, demographics and financial reports and bulletins.

DOJ – United States Department of Justice: A federal department responsible for the enforcement the law and administration of justice in the United States.

EDD/LMID – Employment Development Department/ Labor Market Information Division: A California department that tracks and reports employment and labor statistics for the state.

FY – Fiscal Year: The designated accounting and budgeting year for the County. In California, the fiscal year is July 1 through June 30.

HUTA – Highway User Tax: Taxes imposed by the State on motor vehicle fuels used in vehicles upon public streets and highways. A portion is allocated to the County Roads Fund for maintenance, planning, construction and improvement of the County maintained road system.

LAO – Legislative Analyst's Office: A nonpartisan governmental agency that provides fiscal and policy advice to the California Legislature.

MMRSA- Medical Marijuana Regulation and Safety Act: State law that went into effect January 1, 2016 and establishes a licensing and regulatory framework for the cultivation, manufacture, transportation, storage, distribution and sale of medical cannabis. Allows counties to impose a tax on medical cannabis.

OPEB – Other Post-Employment Benefits: Employee benefits other than pension received after retirement. For the County this represents a required contribution to retiree health insurance premiums for insurance through CalPERS.

PARS – Public Agency Retirement Services: a company that provides retirement services to public agencies. The county contracts with PARS for administration of an irrevocable trust for pensions that allows funds to be set aside to help smooth retirement rate increases in future years.

PERS – Public Employee's Retirement System: Also called CalPERS is an agency in the California executive branch that administers health and retirement benefits for local agencies, public schools and State employers.

PTAF – Property Tax Administration Fee: A fee charged by the County to special districts, school districts and cities for their proportionate share of costs related to the administration of property tax collection.

RDA – Redevelopment Agency: An agency formed by a local city or county government for the purpose of providing for the improvement, rehabilitation and redevelopment of blighted areas. On February 1, 2012 all RDAs within the State were dissolved.

TOT – Transient Occupancy Tax: A 10 percent tax charged on lodging accommodations unless the stay is for a period of 31 days or more. The charge is authorized under State Revenue and Taxation Code Section 7280.