



COUNTY OF HUMBOLDT

For the meeting of: 2/26/2019

File #: 19-268

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Departmental

SUBJECT:
7-Year Financial Forecast

RECOMMENDATION(S):
That the Board of Supervisors:
1. Receive a staff report on the financial forecast of the county's major funds over the next 7 years.

SOURCE OF FUNDING:
General Fund, Department of Health & Human Services Fund, Library Fund and Aviation Fund

DISCUSSION:
The County Administrative Office provides the Board quarterly budget reports. Starting in 2013, a 5-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 5 fiscal years. The attached report has been revised to forecast the next 7 years and 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 future years.

This Seven-Year Financial Forecast report covers primarily General Fund forecasts and noteworthy changes or issues with other major funds over the 7-year period. In preparation of the report, a number of publications were referenced to determine economic forecasts at the local, state and federal levels, such as the Congressional Budget Office report, Legislative Analyst Office California Fiscal Outlook, Beaconomics and the Humboldt Economic Index.

Economic indicators for the United States (US), California and Humboldt County predict that the economy will continue to grow, according to federal Congressional Budget Office (CBO), through (FY) 2019-20 and that over a 10-year outlook that growth will average 1.9 percent. Beacon Economics in its Winter 2018 report published a forecast that was "boringly optimistic" because, outside of the rapidly growing federal budget deficit, the US economy looks to be well-balanced in terms of the structure of growth with solid fundamentals including private sector debt levels, consumer savings

rates, rising wages, the overall pace of homebuilding and business investment. While unemployment is low, job growth remains steady.

The US economy is now in the 10th year of its current expansion, and at this point there is little reason to believe that will end in 2019. If that occurs, it will end being the longest period of continuous expansion in US history, with the longest period being 10 years. Historically recessions have occurred about 5 years apart and this suggests another recession may occur during the 7-year forecast period.

The good news is that unemployment remains low and there is steady growth in the overall economy in Humboldt. Challenges such as affordable housing and availability of housing stock remain issues for sustained growth in the employment sector. Even though consumer confidence is moderately up, local retail sales have declined and while some suspect legalization of cannabis is a contributing factor to this recent trend, it remains undetermined. The state government has built up its reserves and is generally in good shape in case of a moderate recession or slight change in federal policy. Nationally, the economy is strong and signs show that growth could taper within the next two years. Federal policy changes have a chance to affect California and Humboldt County in a significant way, but those effects are yet to be realized.

The 7-year forecast for the General Fund shows expenditures exceeding revenues each year of the forecast, and a heavy reliance on fund balance to finance each year's spending. A negative fund balance does develop at the end of FY 2022-23 and fund balance is projected to be negative \$20.5 million at the end of the forecast period. Major contributing factors to the declining fund balance include increasing retirement and debt financing costs, and slow to moderate revenue growth, particularly sales tax and cannabis excise tax. If either of these factors changes for the better, such as cannabis revenue, forecast figures would need to be revised and the fund balance issue would not portray such a bleak picture. In addition, since the Board cannot adopt an unbalanced budget, measures to reduce the negative fund balance and bring forth a balanced budget will be required in future years if expenditures outpace revenues.

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 has had an opportunity to receive the mid-year budget review, which sets the parameters for the FY 2019-20 budget development.

FINANCIAL IMPACT:

Acceptance of today's report has no direct financial impact. However, information contained in this report is intended to offer insight into the long-range effects of policy decisions at the local, state and federal levels, and economic conditions. Long-term fiscal health is of the utmost importance to the county to ensure the sustainability of services for county residents.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by managing our resources to ensure sustainability of services .

OTHER AGENCY INVOLVEMENT:

File #: 19-268

None

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion

ATTACHMENTS:

7 Year Financial Forecast

PREVIOUS ACTION/REFERRAL:

Board Order No.: N/A

Meeting of: N/A

File No.: N/A