NAPA COUNTY
5-YEAR GENERAL FUND FORECAST
PREPARED IN FISCAL YEAR 2024-25 FOR FISCAL YEAR 2025-26 THROUGH 2029-30

Introduction:

Napa County has a history of long-term fiscal stability and a consistent level of services. The **5-year General Fund Forecast** (5-Year Forecast) is one of the tools that supports prudent fiscal planning. The **5-Year Forecast** is updated annually and is used with the County's **Annual Budget Policy Guidelines** to develop the annual Recommended Budget.

Each year, as part of the annual budget process, staff provides the Board with a forecast of what the General Fund's financial condition could look like over the next five years. Revenue and expenditure decisions that are made in the budget year will have a significant impact on the General Fund's future resources and obligations.

The 5-Year Forecast assumes that the county will maintain existing levels of service. The projection does not include legislative changes that may affect revenues or programs and assumes that the board adopted policy structure will remain constant. The figures provided in the 5-Year Forecast are based on high-level assumptions.

The 5-Year Forecast's estimates are based on the Adopted Budget for FY 2024-25 General Fund revenues and expenditures.

Forecasting Methodology and Baseline Assumptions:

Forecasting revenues and expenditures is always uncertain. As of the beginning of the calendar year 2025, the economy appears strong. Most economists do not expect a recession in the United States in the coming 12 months. Goldman Sachs Research projects a 15% chance of a US recession in the coming 12 months. Despite the cautious optimism, there is great uncertainty coming from Washington particularly around tariffs, potential deportations and the federal bureaucracy.

The forecast makes several assumptions about what will happen over the next five years including inflation rates, state budgets, and US macroeconomic conditions. The forecast includes the estimated cost of previously identified board priorities such as general fund contributions to fire protection, climate action, and groundwater. The forecast includes projected increased costs for items such as general liability and property insurance. The forecast includes estimates from the Fiscal Year 2025-26 to Fiscal Year 2029-30 Capital Improvement Plan, including the Facilities Master Plan.

The baseline forecast assumes a sustained, existing level of service. Revenues are projected to grow to grow conservatively year-over-year. Particularly, staff expects modest growth in both sales and transient occupancy tax over the five years. Property tax continues to experience steady growth and remains the strongest portion of the county's revenue. Property tax is the largest, most stable General Fund revenue source. Property tax secured, for example, is more than three times the size of sales and transient occupancy tax combined. Further, the forecast is based on current law and policy both at the federal and state levels. While changes at the federal and state levels are likely, it is beyond the scope of the 5-Year Forecast to predict which policy changes will occur and their direct impact on the General Fund revenues and expenses.

General Fund budget expenses mostly consist of Salaries and Benefits, Services and Supplies, and Other Expenses. When developing the annual budget, staff assumes all positions will be filled the entire year. Then a vacancy factor is calculated to account for turnover and hiring lags. The difference between budgeted amounts for salaries and benefits and actual expenditures varies from year to year. Napa County budgets and encumbers the maximum cost of executed contracts. When the total amount allowed to be spent in a contract is not used, it creates savings.

Economic Conditions:

National Economy

As of the beginning of 2025, the United States economy is strong.[1] The Federal Reserve estimates the economy will grow by 2.1% this year, which is a slight decrease from 2024 when the economy grow by 2.7%. Unemployment rates are low, and inflation has come down from its high three years ago. Although inflation has come down, actual prices remain high.

There are significant areas of risk to the US economy.[2] Tariffs on foreign goods have the potential to create inflation for consumer goods, further eroding consumers' willingness to spend on nonessentials, such as wine. Deportations of undocumented immigrants, depending on their scope, could impact industries such as agriculture, construction, food processing and restaurants. Labor shortages in these industries could add inflationary pressures and further limit discretionary spending. As of early 2025, it is unclear what approach may come from Washington, and what impact it could have on the economy.

An area of concern for the US economy could include an increased debt-to-GDP ratio which is nearing an all-time high, though this risk is a longer-term concern rather than a short-term one.

[1] Board of Governors of the Federal Reserve System.
[2] Goldman Sachs Research

State Budget

The state economy continues to be sluggish[3]. Both the labor market and consumer spending are weak. Few industries in the state have added jobs in the last two years. The State Budget continues to be a challenge. According to the Legislative Analyst Office the state budget has structural deficits through Fiscal Year 2028-29 of $28 billion each year. There has been growth in social service program enrollment that is much higher than historically. This could mean larger cuts in other areas to offset this growth. Recovery efforts for the Los Angeles fire will have multi-year impacts on the state General Fund. According to the LAO, the Los Angels fires will likely cost the state General Fund over $1 billion over several fiscal years.

The bright spot in the state's fiscal position is that high-income Californians have seen their assets and incomes increase. The increases are due to a strong stock market. Since the state relies on high-income earners for its discretionary revenue, this positively impacts the state budget. The state relying on the stock market for its fiscal condition exposes it to the whims of financial markets and is potentially a major liability.

Given the improved state budget conditions, Napa County can expect no major cuts to state funded, county run programs, specifically for the Health and Human Services Department. A continued area of concern is the Vehicle License Fee. This is a state reimbursement to counties for lost revenue due to changes in the Vehicle License Fee rate. Whether Napa County continues to receive this funding is tied to when Napa Unified School District could turn basic aid. A basic aid school district is one whose local property taxes meet or exceed its revenue limit. The earliest Napa Unified School District could become a basic aid district is Fiscal Year 2026-27.

Local Economy, Demographics and Local Revenue Sources

Napa County's unemployment rate continues to be low, hovering about 4% and slightly below the state average. Local employment continues to increase following the pandemic lows. Median housing price growth, according to Zillow Research, is projected to declined by -0.4% from December 2024 to 2025.

According to the state department of finance, although Napa County's population continues to decline, the rate of this decline is beginning to ease. From 2023 to 2024 Napa County's population declined less than 1%. According to a recent report, the north bay, including Napa County, lags behind the greater Bay Area and the nation in job growth. Part of this reason is demographics with older workers leaving the workforce while younger workers leaving the region due to high housing costs.[4]

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[3] CalMatters.
[4] Bay Area Economic Institute's State of the North Bay.

Despite some of the mixed news locally, the tourism industry continues to experience positive trends. According to Visit Napa Valley, occupancy rates are improving since the pandemic lows and travel demand generally is expected to increase for both business and leisure travelers.

Revenue projections:

Property Tax-Secured: This is a value-based tax on the real estate property and is the largest General Fund revenue source in Napa County.

The forecast projects this revenue source at $97M in FY2025-26 and increasing by 4% each subsequent year. This is a conservative estimate. In Fiscal Year 2021-22 to Fiscal Year 2022-23 this revenue source increased by 6.7%, the next year this revenue source increased by 7.6%.

Property Tax - VLF Swap: This is a state reimbursement to counties for lost revenue due to changes in the Vehicle License Fee.

The forecast projects this revenue source at roughly $30M each year of the forecast. This revenue source experienced an 8% increase of actual revenue from Fiscal Year 2022-23 to Fiscal Year 2023-24. For years, 5-Year forecasts have projected elimination of this revenue source. It is currently unclear if, or when, this revenue source will be eliminated. However, the earliest that Napa Unified School District could turn basic aid would be Fiscal Year 2026-27. If it does, it could result in a two-year lag in receiving the revenue. However, there are indications that the state Department of Finance does not believe counties are entitled to this revenue source. The Governor's January budget did not include this two-year backfill for counties that are already basic aid, Alpine and San Mateo counties.

Property Tax Excess ERAF: This is property tax that is returned to counties after the local property taxes are sufficient to support local schools.

The forecast projects this revenue source at roughly $50M in FY2025-26 and increasing 5% each year. This is a conservative estimate because this revenue source has experienced volatility in the past. However, from Fiscal Year 2022-23 to Fiscal Year 2023-24 it experienced a 13% increase.

Property Tax Unsecured: This is a value-based tax on non-real estate property. This may include items such as boats, and airplanes.

The forecast projects this revenue source at $4.1M in FY2025-26 and increasing by 2% each subsequent year. This estimate is more conservative than recent history would suggest, but staff estimated conservative due to its volatility. Between Fiscal Year 2020-21 to Fiscal Year 2021-22 actual revenue from Property Tax Unsecured declined by 31% before climbing by 36% the following year.

Property Tax Transfer Tax: This is a tax that is charged on the transfer of land or real property from one party to another.

The forecast projects this revenue source at $2.5M in FY2025-26 and increasing by a modest 2% the first year, but growing in subsequent years, due to the impacts of lower interest rates. This revenue source is influenced by market conditions.

Sales Tax: This "Bradley-Burns" tax is the local 1% rate and is an unrestricted local revenue source.

The forecast projects this revenue source at $14.6M in FY2025-26 and increasing by 2% in the subsequent years. This revenue source is volatile and influenced by market conditions. In Fiscal Year 2022-23 to Fiscal Year 2023-24 actual sales tax receipts declined by 2%. The following fiscal year, sales tax receipts are expected to increase by 3%.

Transient Occupancy Tax: This is a tax on the rent charged on transient guests in hotels, motels, and home sharing properties in the unincorporated county.

The forecast projects this revenue source at $12.5M in FY2025-26 and increasing by roughly 3% each subsequent year.

Expenditure projections:

The forecast assumes existing levels of service (including staffing and program costs). Additional staffing, specifically in a General Fund department is one of the most direct ways to add costs to future years.

Salary and Benefits: This is by far the largest General Fund cost. The forecast assumes that Salary and Benefit costs will increase by roughly 4% most of the forecast years. The reason is that some bargaining units Cost of Living Adjustment (COLA) is increasing by 3% while other bargaining units COLA is increasing by 3.5% in Fiscal Year 2024-25 to Fiscal Year 2025-26. Salaries and Benefits are driven by Memorandums of Understanding with bargaining units and the number of employees the organization maintains. The increases are also driven by annual increases in medical insurance, retirement costs, step increases and 401(A) costs. Other more modest costs include Medicare, Standby pay, and Overtime.

Services and Supplies: This cost includes contracts for services, and supplies such as office equipment or food at the jail. The projection assumes Services and Supplies will increase from $65M in Fiscal Year 2025-26 to $66.6M in Fiscal Year 2026-27. This is an increase of 2.5%. The project assume this 2.5% increase during the forecast period as inflation continues to cool.

ADA Implementation, Groundwater and the General Plan: Each of these three major county projects is projected to cost between $1M to $1.5M throughout the 5-Year Forecast. The General Plan in particular will be a major undertaking that will require significant staff time, consultant costs, and community outreach.

Facility Master Plan: In 2024 the Board gave direction to significantly rehabilitate multiple county buildings including South Campus Building 4, the County Administrative Building, 650 Imperial Way and demolish the old Hall of Justice. Implementing the full plan is currently established at approximately $140M. Staff expects construction to take approximately 5-6 years to complete. The forecast includes $9M each year for bond financing to pay for the Facility Master Plan. The current Five-Year Capital Improvement Plan includes $15M, over five years, of a General Fund contribution to pay for a portion of the $140M Facility Master Plan.

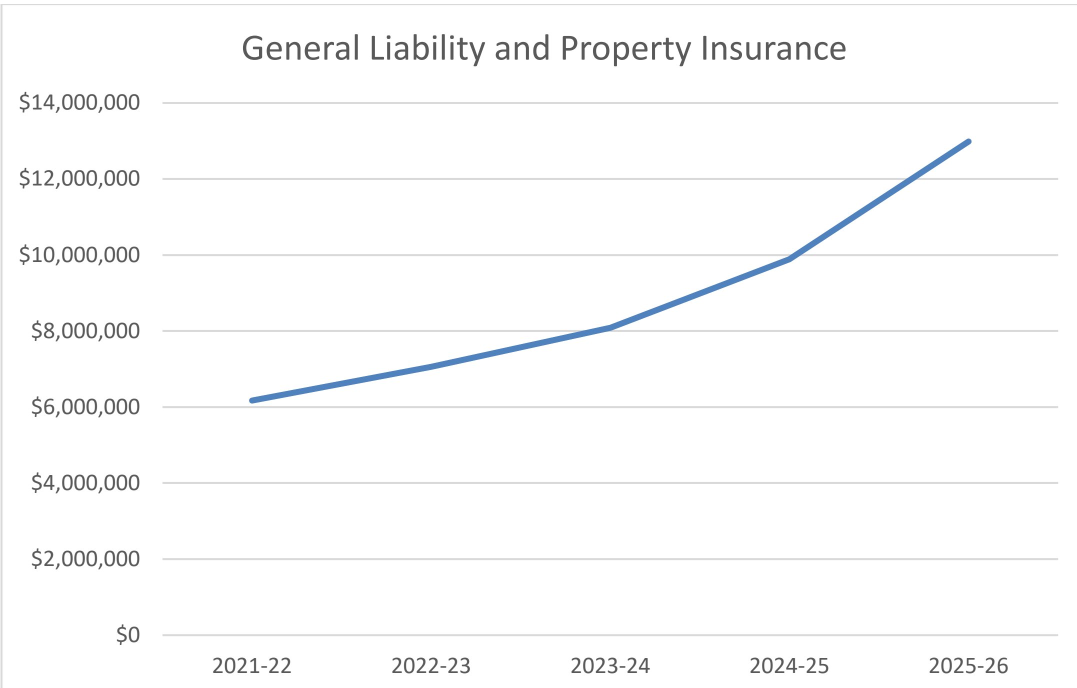
Five-Year Capital Improvement Plan (CIP): The forecast includes a General Fund contribution of $10M each year to implement the Five-Year Capital Improvement Plan. A portion of the CIP includes projects with a dedicated funding source (such as improvements to the Airport, the Library or the Juvenile Hall for the Skyline Academy). However, a significant part of the CIP will require a large and sustained General Fund contribution of at least $10M annually. Besides the Facility Master Plan, the CIP includes items such as renovating a fire station, new HVAC systems, a replacement Mt. St. Helena Radio Tower, resurfaced parking lots.

Insurance Costs: General Liability and Property Insurance

This coming fiscal year, the county is projecting a combined General Liability and Property Insurance cost of $12,986,300. Five years before the county budgeted $6,171,830 for General Liability and Property insurance costs. The below chart illustrates the increasing costs of insurance.

The General Fund is paying for 54% of the costs of General Liability. The General Fund is paying for 51% of costs of Property Insurance. Other funds, such as the HHSA, Fire Fund or Airport Fund, are paying for the remaining costs General Liability and Property Insurance. General liability rates are largely tied to staff counts, the number of vehicles, past incidents and market trends. Two of the largest county departments by staff count, and by exposure are in the General Fund, those are the Sheriff and Corrections Department. Over time, the increase cost of insurance could begin to divert money away from core county services.

The statewide costs of insurance continue to increase and will only get more expensive the coming years. The reason for this continued increase is due to liability settlements, particularly for law enforcement statewide. Property insurance is also more difficult to acquire and expensive to retain. The recent southern California wildfires will continue to exacerbate this trend. A further reason for why statewide insurance costs are higher is that increasingly events that cause payouts are correlated to each other and no longer isolated incidents. Civil unrest incidents or wildfires are not isolated to a specific municipality. They spread and impact multiple cities and counties all at once. This trend means insurers are less able to spread out their risk, which pushes insurers to either not provide coverage or significantly increase the cost of insurance coverage. Between Fiscal Year 2024-25 to Fiscal Year 2025-26 General Liability and Property Insurance is increasing by 31% or $3.1M.



The below chart shows the cost of General Liability and Property Insurance, and the percentage it has increased.

Fiscal Year	Amount	Percent Increase
2021-22	$6,171,830	
2022-23	$7,055,994	14%
2023-24	$8,088,752	15%
2024-25	$9,885,762	22%
2025-26	$12,986,300	31%

General Fund Transfer to the Fire Fund

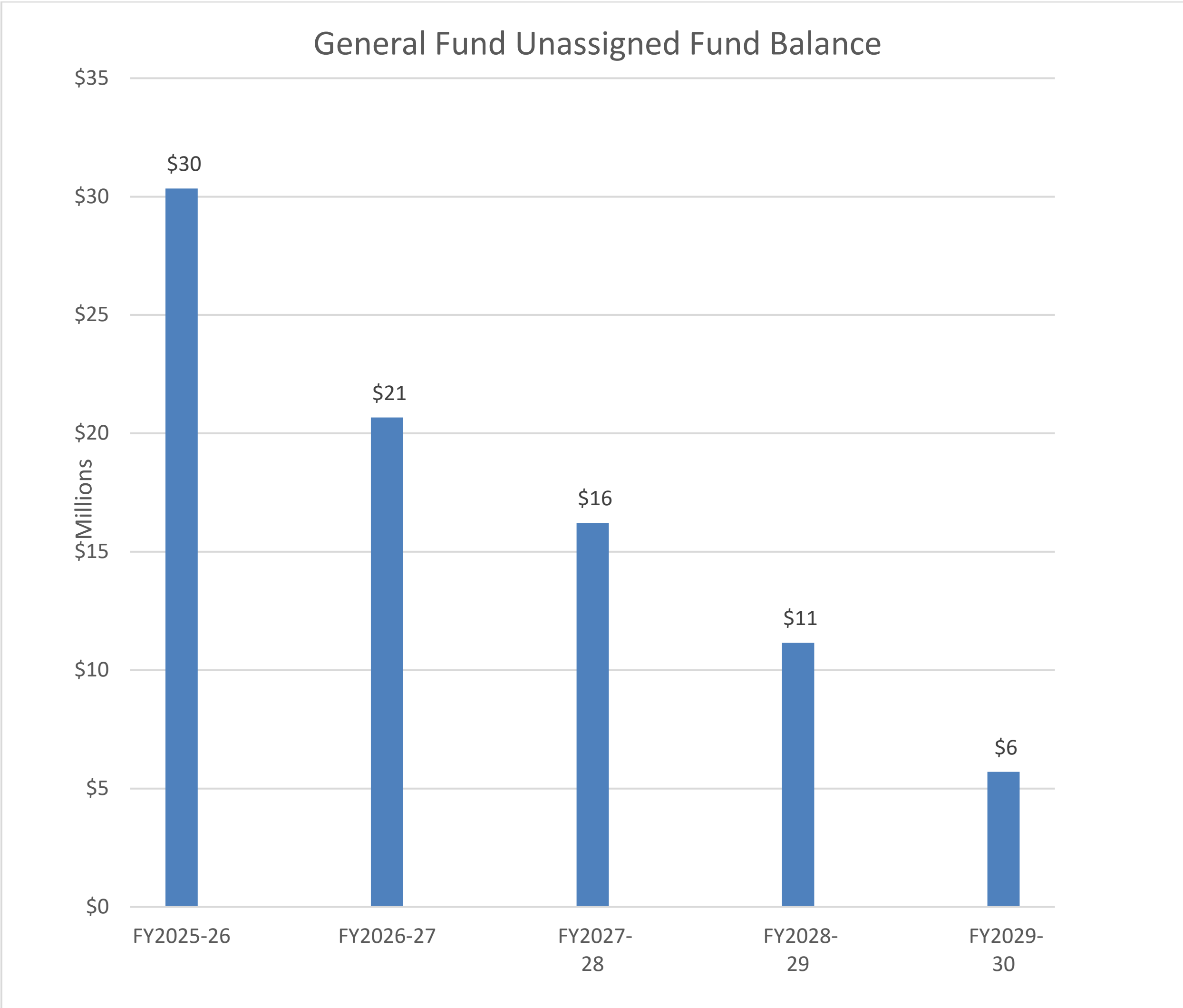
The General Fund transfers to the Fire fund have increased year-over-year. The Fire Fund is currently deficit spending. The Fire Fund's primary revenue source is a dedicated Property Tax of approximately $15M annually. This revenue source has not kept pace with spending. In Fiscal Year 2021-22 the General Fund transferred $3.4M to the Fire Fund. In Fiscal Year 2024-25, the General Fund transferred $18M to the Fire Fund. This is an increase of over 400%. The reasons for this deficit spending are because the county has begun vegetation management services to reduce fuel loads, including implementing the FEMA Building Resilient Communities and Infrastructure (BRIC) grant. Additionally, the costs of the CalFire cooperative agreement has increased, along with the cost of adding additional fire personnel. Finaly, the long-term capital needs of the department have increased. The capital needs include replacing fire apparatus and renovating older fire stations. This deficit spending is not financially sustainable.

The Condition of the General Fund:

Forecasts such as this one, or economic forecasts in general, are most reliable for the first two or three years. Each year of the forecast, the General Fund is projected to have a positive unassigned General Fund Balance. This assumes no recession, similar staffing levels, no new major initiatives and continued VLF funding.

The below graph shows the unassigned ending General Fund balance in each of the 5-Years of the forecast. The fund balance is projected to decline due to higher insurance costs, fire department costs and capital improvement costs.

5-YEAR FORECASTS
FY 2025-26-FY 2029-30



Identified unmet needs:

Throughout the year, the Board identifies unmet needs. These are included in the 5-Year Forecast so that the list can be reviewed and updated annually. Some of these priorities may have potential revenue sources beyond the General Fund, which would be used to meet these ongoing funding needs.

Board identified priorities:

- Fire Protection, vegetation management and implementing the BRIC grant
- Affordable housing, including family farmworker housing and homeless services
- Americans with Disabilities Act Transition Plan implementation
- Cyber security

- Capital Improvement Projects
  - Road improvements and bridge maintenance
  - Major maintenance of County facilities
  - Major capital assets including fire apparatus
- General Plan update
- Preparing and implementing Climate Action and Resiliency strategies
- Groundwater

Conclusion:

The General Fund is projected to end each fiscal year of the 5-Year Forecast with a positive unassigned General Fund balance. However, this positive fund balance is projected to decline each year. The General Fund is carrying a significant number of costly projects. These additional costs include fire protection, major capital projects, a General Plan, Groundwater, and ADA implementation. Given these major efforts, the General Fund has limited, or no, capacity to absorb more projects.

Under best cast scenarios, with no recession and continued VLF funding, the General Fund should be able to absorb the current priorities.