# MESSAGE FROM THE COUNTY EXECUTIVE OFFICER

## Budget Highlights

Nevada County strives to be a leader in meeting the needs of our community, from providing services fundamental to the missions of county departments including responding to emergencies and supporting community health and safety, to acting on the Priority Objectives that have been identified by the County Board of Supervisors as activities and programs where county resources will be focused in the coming year. To be responsive to these needs, the County has increased staffing in critical service areas and, at the same time, challenged ourselves to do more for our community with the resources that we have.

In our budgeting process, which sets the priorities for the new fiscal year, we have continued to rely on a balanced approach that employs careful fiscal practices and oversight, such as the prudent use of reserves, expenditure reductions where possible, actively pursuing grants and new funding, and a practice of tight vacancy review, so that we can continue to have the resources necessary to maintain core services and meet Priority Objectives (see the list of those objectives in the Strategic Planning section of this budget book, page 1-10).

Over the past decade, the Board of Supervisors has consistently supported prudent fiscal policies (the Board's budget policies and other financial management policies can be found in Section 6 - Appendices) allowing for the consistent delivery of excellent services to our citizens while building resources to weather a recession. As a result, Nevada County has remained healthy and is prepared for uncertainties including shocks from the state and federal budgets or a nationwide recession.

As with most California counties, state and federal funding is the largest source of funds for the County of Nevada and, being a political subdivision of the State of California, we depend on the health of state finances. Generally, if the state is financially sound then counties have a higher level of financial security, and when the state budget is in crisis, the County feels the pain. The Governor's revised state budget includes a $12 billion deficit with messaging that the next couple years will likely see decreased revenue and increased expenditures, perpetuating and potentially expanding the budget gap. The current state deficit for FY 2025-26 will be solved with one-time and temporary reductions that aren't expected to be a widespread hit to core county funding and services, but there will be impacts to some programs, including homelessness, public health and social services.

The 2025-26 Nevada County expenditure budget totals $415.5 million, an increase of 7.3% ($27.8M) over the 2024-25 budget. The largest increases were in services and supplies (11.9%, $14.1M) and salaries and benefits (9.0%, $13.7M). The increase in services and supplies is due to increased spending related to grants received in the Office of Emergency Services (OES) and Health and Human Services (HHS).

The increase in salaries and benefits reflects the addition of 24.5 full-time positions, and cost increases related to bargaining, health insurance, and retirement. The largest increases in full-time staff were in the Health and Human Services Agency to support continued rollout of the state's CalAIM Medi-Cal reform project including payment reform changes in the Behavioral Health department. Social Services also added positions to assist with the high workload volume associated with Medi-Cal benefits. Figure E-1 below provides a historical perspective on the County budget since 2016-17. State and federal funds and related expenditures continue to be a driver of the County budget, funding approximately 45% of the 2025-26 budget.

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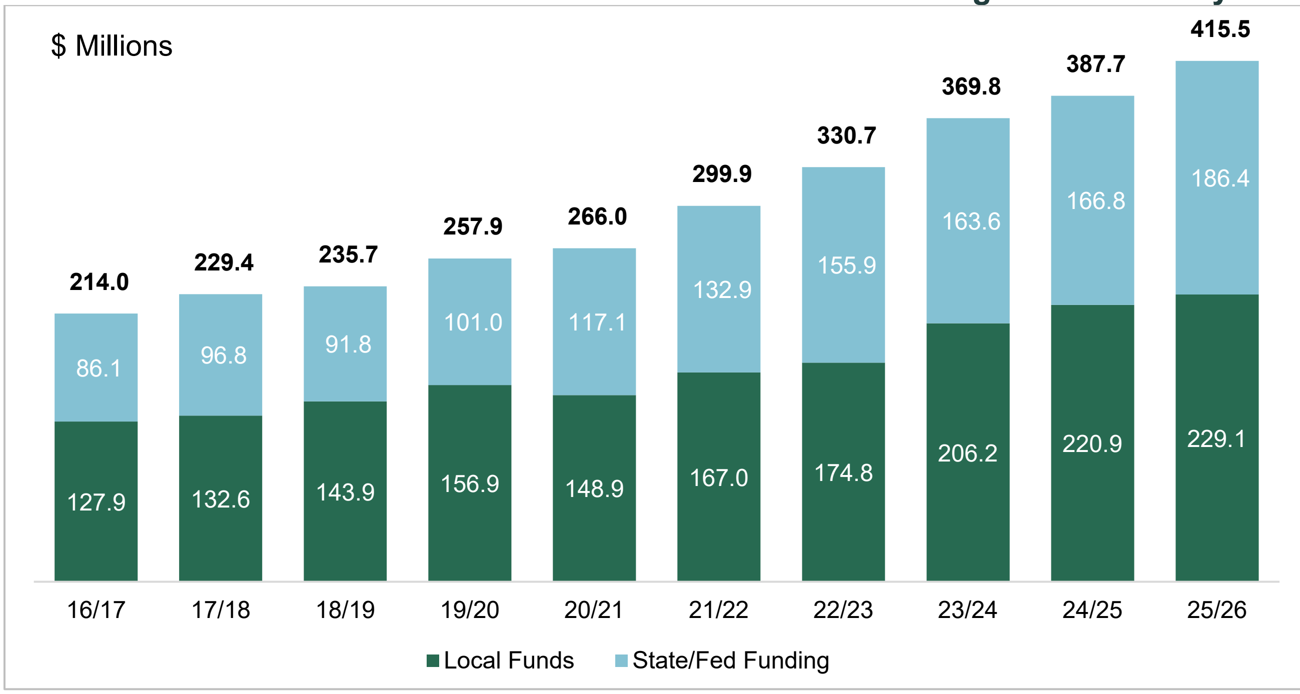
**Figure E-1: County Budget**



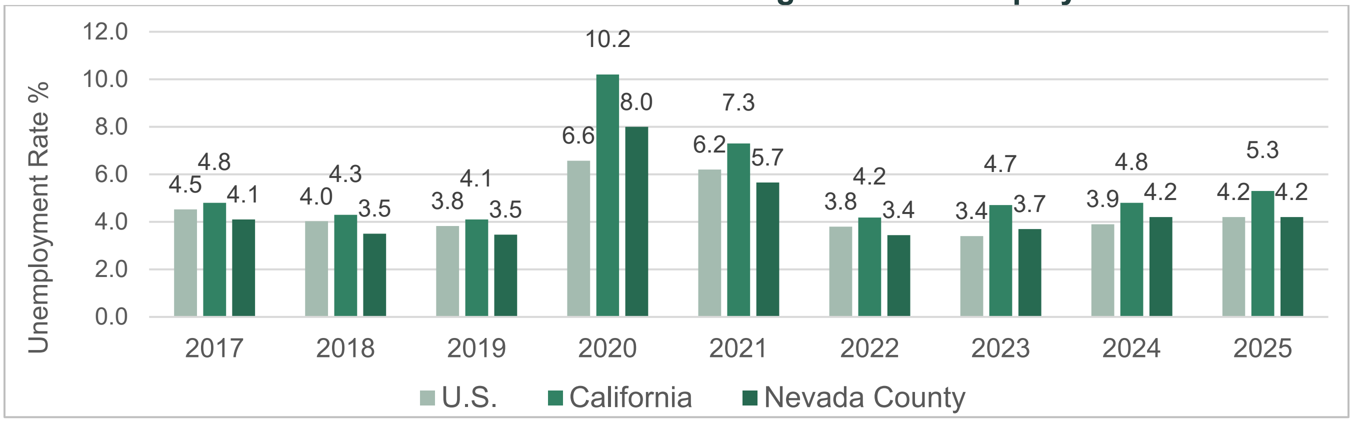

Following a period of significant disruption in 2020, unemployment rates have steadily decreased and are now approaching historic lows. However, 2025 may see a slight increase as we continue to navigate ongoing economic challenges. As illustrated in Figure E-2, unemployment rates in the United States, California, and Nevada County have generally followed similar trends, with California and Nevada County often lagging behind the national average.

At the close of 2019, the unemployment rates were near record lows across the board, with the U.S. at 3.8%, California at 4.1%, and Nevada County at 3.5%. After the pandemic's economic fallout, unemployment rates crept slightly higher but remained above historical lows. As of April 2025, unemployment rates stood at 4.2% in the U.S., 5.3% in California, and 4.2% in Nevada County.

While the U.S. economy has experienced strong employment growth in 2024, challenges persist, including high interest rates, a slow-moving real estate market, and geopolitical tensions. These factors have contributed to a subdued economic outlook for 2025, with the possibility of a recession or a "soft landing" being hotly debated among economists. In Nevada County, these economic headwinds have been felt in the form of reduced property tax revenue and slower construction activity, which has impacted local government revenues.

While the County is not forecasting a recession in the upcoming budget, we are carefully monitoring these trends, particularly the potential for future adjustments to Federal Reserve policy. We remain vigilant about the economic uncertainty and its potential impact on local revenues and overall economic health.

**Figure E-2: Unemployment Rate Trends**

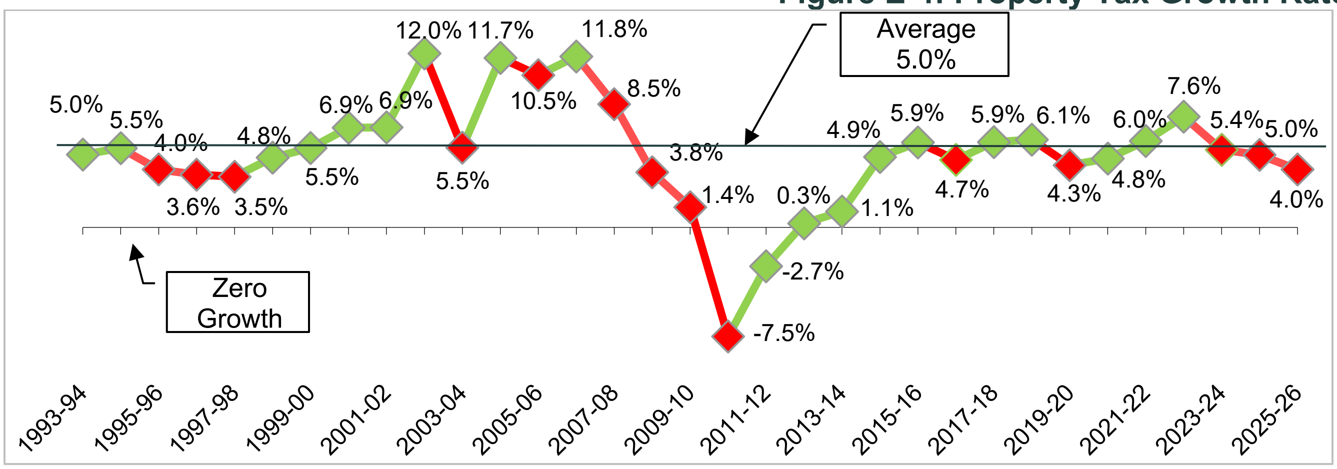



Sales tax revenues remain an important indicator of the County's overall economic health. While they are a secondary source of revenue for the County's General Fund - behind property taxes - they play a critical role across the broader County budget. These revenues support the Health and Human Services Agency and public safety-related departments through realignment funds, Transit and Roads Departments via gas tax revenues, and the Library through a voter-approved sales tax measure. Following the Great Recession, sales tax revenues steadily increased, with an unexpected surge during the COVID-19 pandemic years, particularly in 2020-21 and 2021-22. However, that growth has not continued. Over the past three fiscal years, sales tax revenues have declined, and this downward trend is projected to persist. For 2025-26, sales tax revenues are projected to remain flat at $4.3 million, matching the level of 2024-25. This plateau signals a stabilization in consumer spending and economic activity following recent fluctuations, while also underscoring the need for continued cautious fiscal planning.

**Figure E-3: Sales Tax Trends**

Property tax is a more stable revenue source than sales tax as it is a combination of the Proposition 13 2% growth mechanism and real estate sales. It is also by far the largest revenue source for the General Fund. For the last 33 years, the County realized an average growth rate of 5.0% a year in property taxes. In 2019-20 the property tax growth rate dipped below the average at 4.3% but then rebounded over the next several years, reaching a post-Great Recession high of 7.6% growth in 2022-23. That was partly due to a strong local real estate market fueled by the COVID-19 and the desire to move to our more rural area. The real estate market has since cooled off and the slower growth trend that started in 2023-24 continues into 2025-26, where we're estimating 4.0% growth, well below the long-term average of 5.0%.

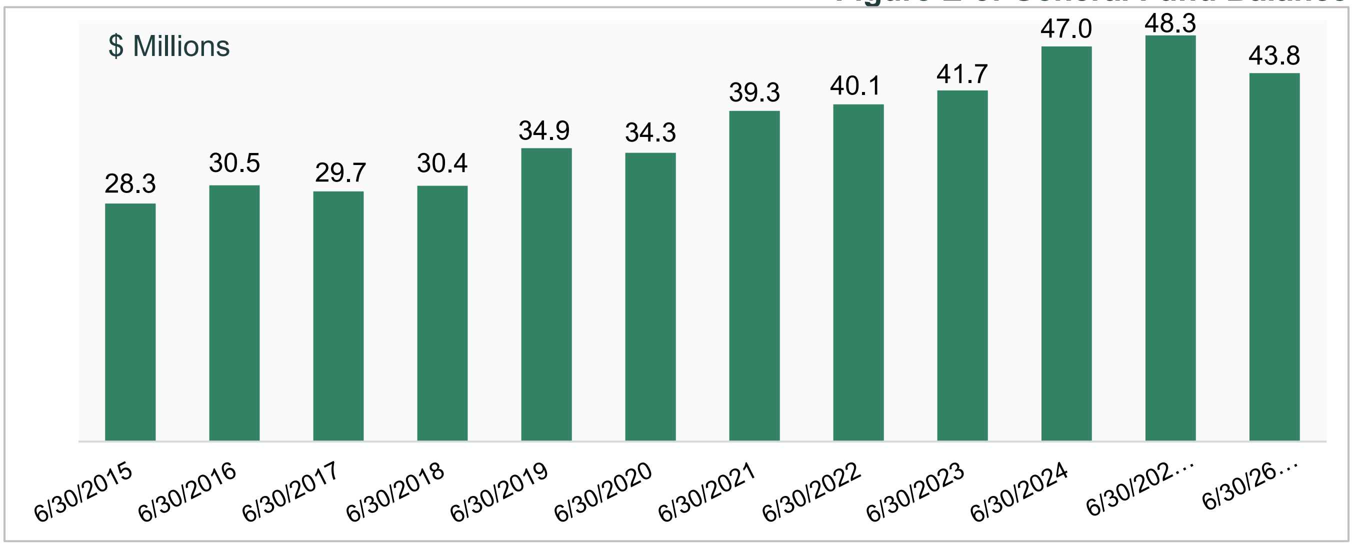
**Figure E-4: Property Tax Growth Rate**




For the last two decades, the County has been able to maintain essential services, even in recessionary times, due to, as mentioned earlier, the fiscally prudent policies established by the Board of Supervisors. These policies provide a framework for how the Board uses its discretionary funding and plans for stability in good times as well as bad. The effect during the good times was to create a healthy General Fund balance to assist the County operations in those more difficult times. Following the County Fund Balance Reserve Policy, the General Fund balance allows for one-time expenditures for emergencies, capital improvements or planned expenditures like major technology upgrades seen in 2024-25 and capital projects as well as paying down pension liabilities and providing seed funding for Priority Objectives. The General Fund currently includes a commitment of over $11 million that may be used as a buffer for a economic uncertainty and funds for capital facilities, information systems infrastructure and Priority Objectives, based on recent five-year plans and additional planning in the Board of Supervisors annual workshop that occurred in January 2025. Figure E-5 shows General Fund balance over time with estimated year-end fund balances of $48.3 million in 2024-25 and $43.8 million in 2025-26. The budget includes a $1.1M use of General Fund for Priority Objectives and $3M use of Special Project Continuation funds, which are funds set aside to complete projects previously approved by the Board of Supervisors under the American Rescue Plan Act Expenditure Plan, before that program expired.

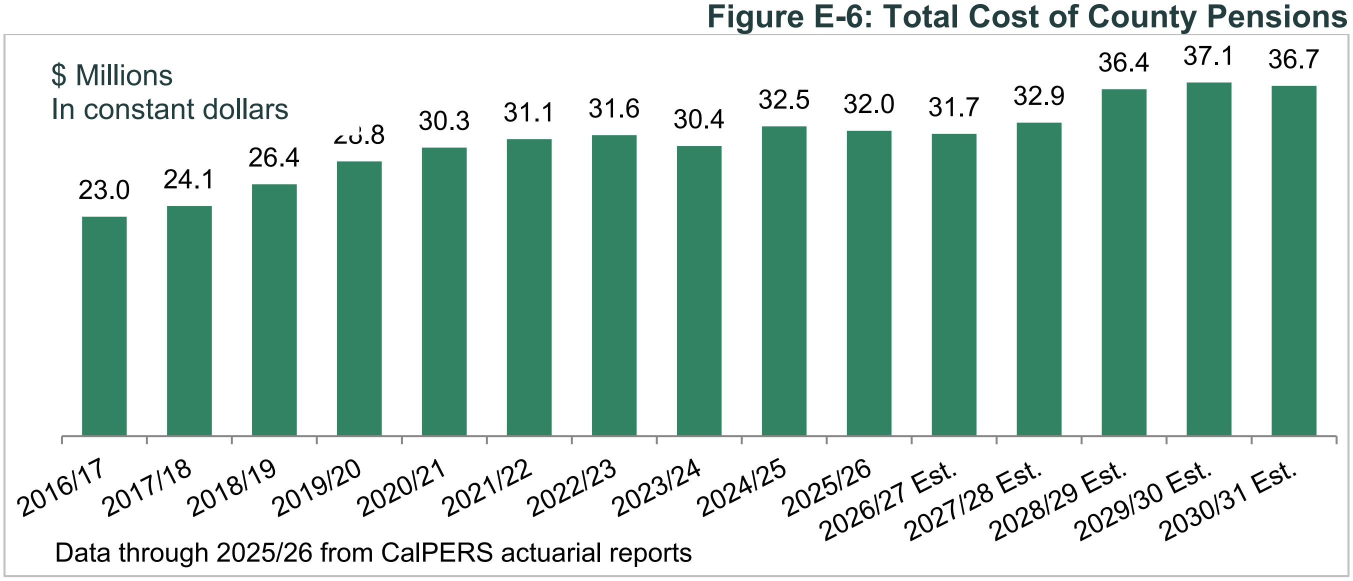
The County will continue to closely monitor the General Fund reserves, as there continues to be uncertainty around the economy, as well as the ongoing challenge of expenditures increasing at a greater pace than revenues. As stated above, these reserves remain critical to maintaining essential services during uncertain economic times, such as those we are currently experiencing.

**Figure E-5: General Fund Balance**




It is imperative that these reserves be maintained at sufficient levels for possible future financial threats. For example, the County continues to monitor increases in pension costs. Those costs increased by $2.1 million in 2024-25 and although they decreased slightly in 2025-26, the drop is anticipated to be temporary before increasing in 2027-28, as shown below in Figure E-6. The County's pension management policy adopted in 2019 will be updated this fiscal year alongside a comprehensive long-term pension funding plan. The plan will provide the Board with recommendations on how to improve the County's overall pension health to ensure long-term sustainability.

**Figure E-6: Total Cost of County Pensions**




The Board's budget policies have been the foundation for the County's solid financial status. The Board's continuing policy hallmark has been to favor long-range financial planning and proactive fiscal management over less prudent, quick and reactive fixes. We expect that these policies will continue to serve us well in these uncertain economic times.