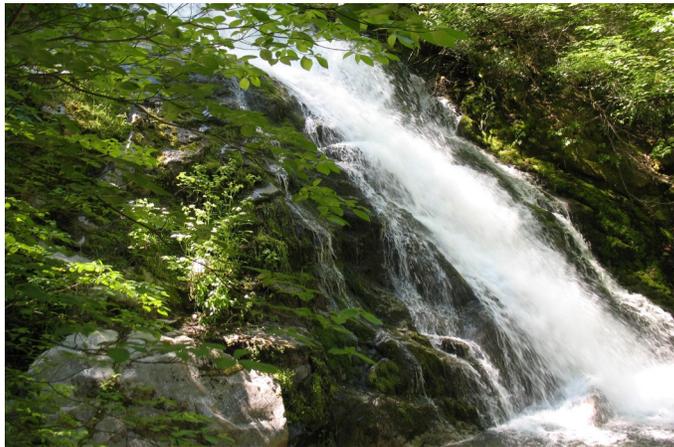


County of Shasta

Citizens' Report

Fiscal Year Ended June 30, 2018



Inside the Citizens' Report

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What is This?

The Citizens' Report is an annual report prepared by the Shasta County Auditor-Controller's office to provide financial data in a format that is easily understood by individuals not fluent in finance or governmental accounting.

The Auditor-Controller's office is dedicated to promoting transparency and fiscal accountability in local government. The Citizens' Report plays an important role in the mission to provide citizens and stakeholders easy access to County financial information.

Covered in this Report

This report covers the fiscal year ended June 30, 2018 and covers the County's fiscal operations for the previous twelve month period, hereafter referred to as Fiscal Year (FY) 2018.



Financial Data Sources

The financial data in this report has been compiled from the County's Comprehensive Annual Financial Report (CAFR), which is a more detailed and comprehensive presentation of the financial condition of the County. The CAFR was prepared in accordance with Generally Accepted Accounting Principles (GAAP) and has been audited by a certified public accountant that presented the County with an unmodified (clean) opinion.

The CAFR and Citizens Report can be accessed at:

https://www.co.shasta.ca.us/index/auditor_index/financial_reports/audit_reports.aspx

Demographic Data Sources

The following sources were used for the nonfinancial information:

California Franchise Tax Board, California Employment Development Department, and Zillow.com (housing information).

Auditor-Controller's Message

The following Citizen's Report has been compiled by staff in the Auditor-Controller's office. Our dedicated staff strive to provide excellent service to citizens of the County, Special Districts, and County Departments.



Financial Highlights

At the close of the most recent fiscal year, *net position* of the County was \$76,770,654. Details on Net Position are presented on Page 6.

Economic Overview

While the County continues to lag behind the State in economic growth, recovery from the 2007 recession is improving based on positive employment rate figures and continued growth in property tax valuations. The impact from the July/August wildfires is unknown at this time, but will be an issue for the County for many years due to decreased property values in the affected areas.

The most significant problems in the County's financial health are its unfunded liabilities relating to pensions and retiree healthcare. The retiree healthcare liability has been addressed by creating an alternate retiree health plan for new employees, and the liability should be eliminated over the next 20 years. However, the County has yet to create a plan to deal with its unfunded pension liability of over \$230 million.

Even with modest increases in year-to-year property tax receipts (discretionary revenues), the County continues to adhere to conservative spending due to economic

uncertainty at the State and Federal level. Looking to the future, conservative spending will not be enough, and expenditure growth will outpace increases in revenue. Most notably, the County's annual contribution for CalPERS retirement is expected to grow by more than 50% over the next 10 years, and historically, healthcare costs have risen by 6% each year. Interest costs on any new debt will make the imbalance worse. The result will be reductions in service levels. Ultimately, balancing current needs with long-term health of the County will become increasingly difficult.

Thank you for your continued support of our office and we look forward to serving you in the future.

Sincerely

A handwritten signature in blue ink, appearing to read "Brian Muir".

Brian Muir,
Auditor-Controller
County of Shasta

Shasta County Information

The County of Shasta was established in 1850 as a general law county and was one of the State’s original 27 counties. The County is located at the northern end of the Sacramento Valley and covers approximately 3,850 square miles and contains more than 2.46 million acres. The County is the 31st most populous county in the State with a population of approximately 178,271 as of January 1, 2018. The City of Redding is the County seat. The County occupies the northern reaches of the Sacramento Valley, with portions extending into the southern reaches of the Cascade Range. Residents residing in the unincorporated areas of the County are represented by members of the Board of Supervisors that correspond to districts within the County.



Supervisor District 1	Supervisor District 2	Supervisor District 3	Supervisor District 4	Supervisor District 5
Joe Chimenti	Leonard Moty	Mary Rickert	Steve Morgan	Les Baugh

Supervisor districts maps can be located at : https://www.co.shasta.ca.us/index/bos_index/districts_map.aspx

County Administration

Shasta County policy and legislative authority resides with the County Board of Supervisors, referred to as the Board. The Board serves staggered four-year terms with each member representing a distinct district.

The County Chief Executive Officer assists the Board in managing and directing the various County departments. The Sheriff, Assessor-Recorder, Auditor-Controller, Treasure-Tax Collector, District Attorney, and County Clerk-Registrar of Voters are elected department heads. The other County department heads are appointed by the County Chief Executive Officer or the Board.

County Staff and Services

The County employed approximately 2,100 full-time equivalent employees during the 2017-2018 fiscal year (includes extra-help employees).

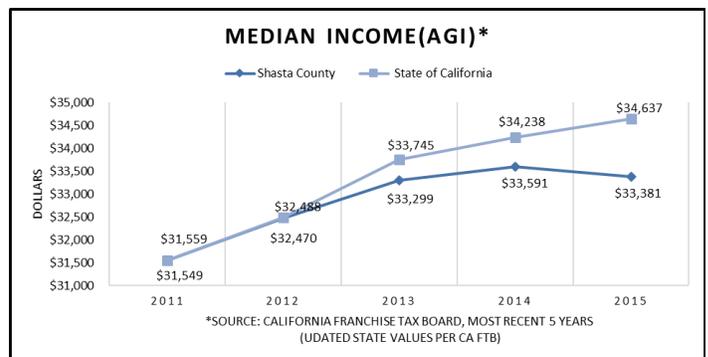
The County services generally fall into one of seven categories: General Government, Public Protection, Public Ways and Facilities, Health and Sanitation, Public Assistance, Education, and Recreation.

Citizens residing in the unincorporated areas of the County receive most of their governmental services from the County.

Citizens within the incorporated areas of the County receive some County services such as Social Services, Behavioral Health, and some Public Safety services.

Demographics and Economy

Median income of \$33,381, as reported to the Franchise Tax Board, decreased 0.6% from 2014 to 2015 (the most recent data from FTB) for the residents of Shasta County. Shasta County 2015 median income was approximately 3.76% lower than the State median. Shasta County ranked 36th out of 58 counties when comparing annual income in 2015; in 2014 the County was ranked 31st, representing a decline.



Shasta County Information-(Cont.)

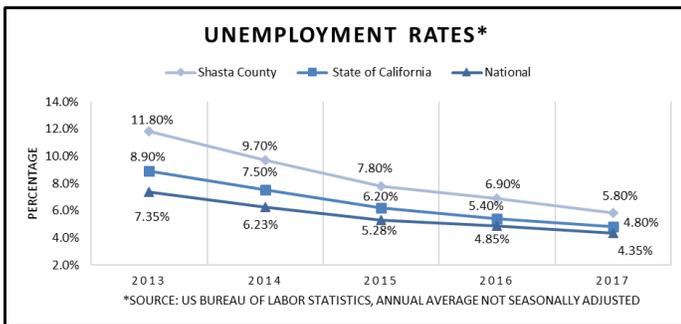
Employment

Shasta County's employment rate has recovered to pre-recession levels, but the number of people in the workforce has not recovered, indicating that the County is still recovering from the recession. Average unemployment in the County for 2017 was 5.8%, which is higher than the State rate of 4.8%. While Shasta County's unemployment rate is higher than the State average, it is lower than the average for the six adjacent counties (Siskiyou, Trinity, Tehama, Plumas, Lassen, and Modoc) which was 6.8%.

Overall economic job growth is predicted to increase 3.0% from 2016-2021, led by retail sales growth of 5.9%. The fastest growing job sector over the same period is expected to be Professional Services. As a result of the expected growth, the personal income is expected to rise by 6.8%.

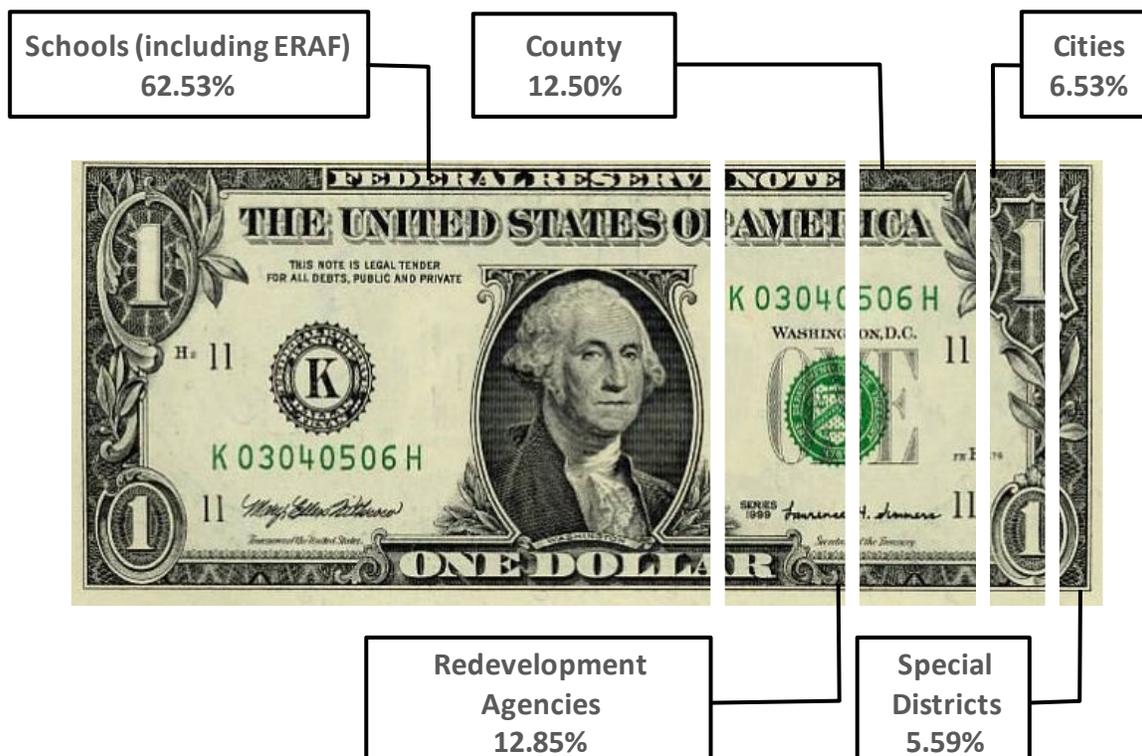
Median Home Prices

The median home prices increased from \$236,700 to \$251,200 from 2017 to 2018, an increase of 6.0%. County-wide home sales have been assisted by historically low mortgage rates and low inventory.



Where your property tax* dollars go:

*Excludes voter approved debt for schools and special districts.



Financial Summary and Trends

Overview

The following section provides a general description of the financial condition of Shasta County as well as how the County utilizes resources.

Statement of Net Position

Assets are resources owned or controlled by Shasta County (real estate, equipment, cash investments, etc.)

Deferred Outflows/Inflows of resources are the consumption (outflow) or acquisition (inflow) of resources in the current period that are applicable to future periods.

Liabilities are debts of Shasta County, whether due currently or in the future.

Net Position is the sum of assets and deferred outflows less the sum of liabilities and deferred inflows.

Net investment in capital assets represents the value of property owned by the County (real and personal) less depreciation and any debt related to the same property. The County's capital assets cannot be used to provide services or satisfy debt, therefore other resources need to be provided to satisfy those needs.

Restricted Net Position represents resources that have contractual restrictions placed on them by the provider. Examples are grants for Behavioral Health or Public Safety. Grantors, contributors, laws and regulations, legislation passed by federal, state or local governments can all place requirements on restricted assets.

Unrestricted Net Position is the balance of Net Position and represents resources that may be used to satisfy ongoing obligations to residents and creditors. In FY 2018 the County's net position was \$76.8 million. However, the unrestricted portion of the net position was a deficit of \$234.0 million, largely attributable to long-term liabilities associated with pensions (\$234.9 million) and post-employment healthcare (\$175.9 million).

Net Position

At the end of FY 2018, the County's Net Position decreased by \$56.3 million in comparison with the prior year. This decrease was primarily due to the implementation of Governmental Accounting Standards Board (GASB) Statement 75 concerning the recognition of Other Post Employment Benefit (OPEB) liabilities. GASB 75 required a different method to determine liabilities related to OPEB.

During the year, the County's total assets and deferred outflows increased by \$47.9 million and liabilities and deferred inflows increased by \$104.3 million resulting in an overall decrease in net position of \$56.3 million.

The table below represents the long-term financial position of Shasta County:

Net Position (in thousands)			
	FY 2018	FY 2017	Change
Current and Other Assets	\$ 317,089	\$ 291,466	\$ 25,623
Capital Assets	202,641	201,894	747
Total Assets	<u>519,730</u>	<u>493,360</u>	<u>26,370</u>
Deferred Outflows of Resources	71,588	50,010	21,578
Total Assets and Deferred Outflows of Resources	<u>591,318</u>	<u>543,370</u>	<u>47,948</u>
Current and Other Liabilities	32,312	33,759	(1,447)
Long-Term Liabilities	473,217	368,900	104,317
Total Liabilities	<u>505,529</u>	<u>402,659</u>	<u>102,870</u>
Deferred Inflows of Resources	9,018	7,616	1,402
Total Liabilities and Deferred Inflows of Resources	<u>514,547</u>	<u>410,275</u>	<u>104,272</u>
Invested in Capital Assets, Net of Related Debt	168,288	165,194	3,094
Restricted	142,479	119,919	22,560
Unrestricted	<u>(233,996)</u>	<u>(152,018)</u>	<u>(81,978)</u>
Total Net Position	<u>\$ 76,771</u>	<u>\$ 133,096</u>	<u>\$ (56,325)</u>

Financial Summary and Trends

Statement of Activities

The Statement of Activities serves as the counterpart to the Statement of Net Position, it represents the revenues and expenses that the government realized and ultimately are reflected in the Net Position.

The Net Position was restated due to the implementation of GASB 75 related to the full recognition of post employment healthcare liabilities.

The table below represents the activities of Shasta County:

	Total Activities (in thousands)		
	FY 2018	FY 2017	Change
Revenues			
Program Revenues:			
Charges for Services	\$ 34,116	\$ 29,651	\$ 4,465
Operating Grants/Contributions	259,293	230,742	28,551
Capital Grants/Contributions	1,593	2,814	(1,221)
Property Taxes	29,381	28,567	814
Sales and Use Taxes	3,901	3,815	86
Other Taxes	3,977	2,107	1,870
Motor Vehicle In-Lieu	-	-	-
Interest and Investment Earnings	3,215	2,663	552
Miscellaneous	5,039	9,166	(4,127)
Total Revenues	340,515	309,525	30,990
Expenses			
General Government	11,736	14,932	(3,196)
Public Protection	96,391	95,716	675
Public Ways and Facilities	16,361	17,998	(1,637)
Health and Sanitation	63,965	55,638	8,327
Public Assistance	121,644	116,769	4,875
Education	1,559	1,598	(39)
Recreation	145	213	(68)
Interest on Debt	931	990	(59)
Enterprise Funds	6,126	5,804	322
	361	324	37
Solid Waste Disposal	1,847	1,744	103
West Central Landfill	738	653	85
Shasta County Transit	553	621	(68)
County Service Areas (Water/Sewer)	2,627	2,462	165
Total Expenses	318,858	309,658	9,200
Excess/(deficiency) before transfers	21,656	(133)	21,789
Transfers	-	-	-
Change in Position	21,656	(133)	21,789
Net Position - Beginning	133,096	133,231	(135)
Net Position - Restated	55,115	133,231	(78,117)
Net Position - Ending	\$ 76,771	\$ 133,096	\$ (56,325)

Long Term Debt

At the end of the current fiscal year, the County had total debt obligation outstanding of \$34,4 million. Of this amount, \$28.9 million comprises bonds that are secured by the County's lease rental payments and other dedicated sources of revenue, and \$0.7 million of special assessment debt secured by property subject to the assessment. The remainder of the County's debt represents loans secured solely by specified revenue sources. Other long-term obligations include compensated absences (accrued vacation and sick leave), workers' compensation and general liability insurance claims liability, the landfill closure/post closure care costs liability, pension, and other post-employment healthcare costs.

Long-Term Debt

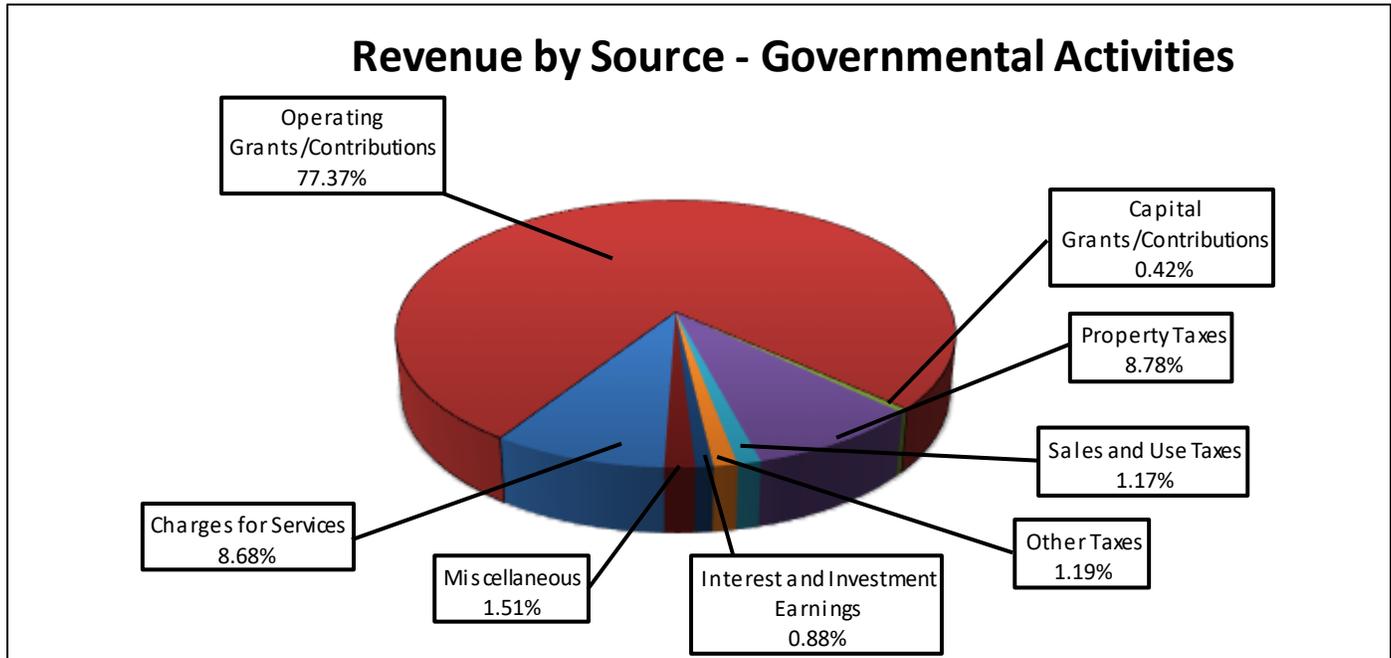
	Total	
	2018	2017
Lease Revenue Bonds	\$ 28,910,000	\$ 30,870,000
Special Assessment Bonds	725,700	770,400
Water/Sewer Bonds	20,000	20,000
Capital Lease Obligations	-	-
Financing Leases	760,870	900,797
Notes Payable	3,518,139	3,689,101
Debt Obligation	33,934,709	36,250,298
Unamortized Bond Premium	418,367	540,027
Total Debt	34,353,076	36,790,325
Less Current Portion	(2,402,982)	(2,366,015)
Net Long-Term Debt	\$ 31,950,095	\$ 34,424,310



County Revenues

Total Revenues

The County's total revenues for FY 2018 were \$341 million, an increase of approximately \$31 million or 10% from the prior year. These revenues are derived from two broad categories: program revenues and general revenues. Program revenues include grants and charges for services. General revenues include taxes, investment returns, and miscellaneous revenue. Less than 9% of the County's revenues come from property taxes.

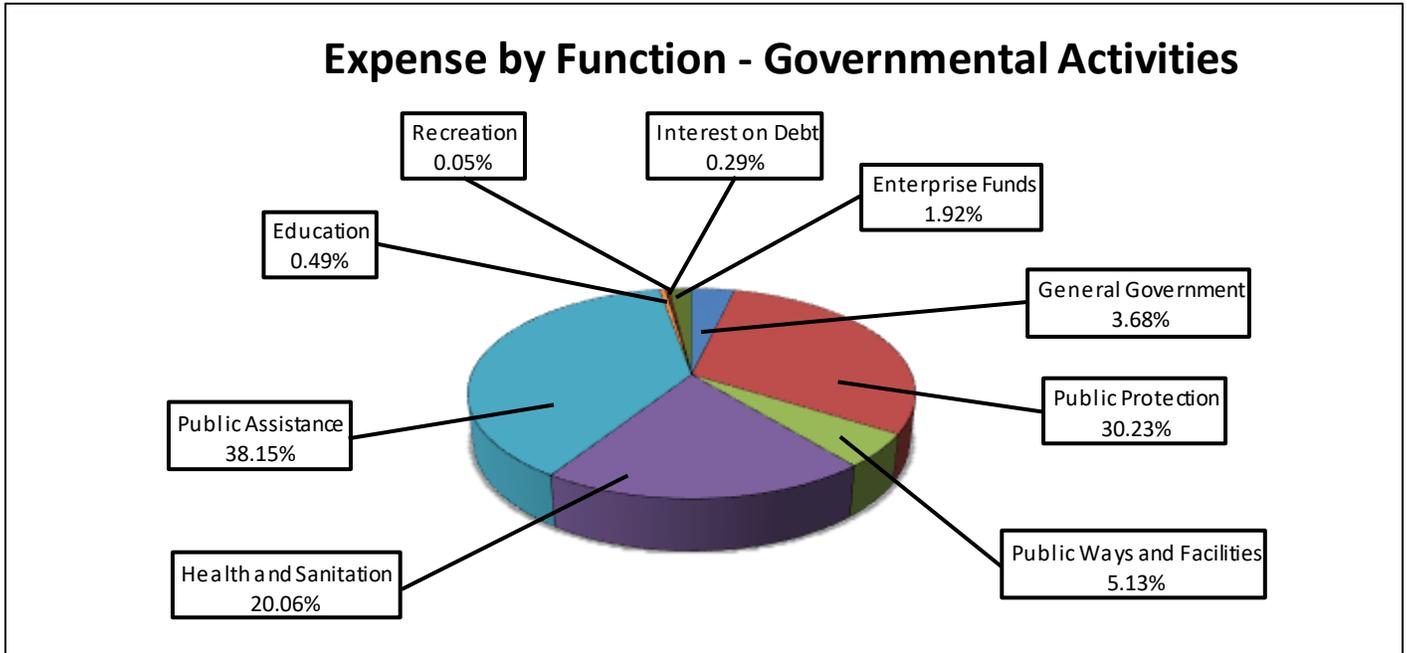


Source	Amount	Description
Charges for Services	\$34.1 million	Charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided.
Operating Grants & Contributions	\$259.2 million	Mandatory and voluntary nonexchange/exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. These programs include Public Protection, Public Assistance, and Mental Health.
Capital Grants & Contributions	\$1.6 million	Grants that are restricted for the construction, purchase, or renovation of capital assets for a particular program.
Property Taxes	\$29.4 million	Revenues based on the assessed value of real property (land, buildings), personal property (boats, aircraft), and business property (equipment, inventory) located within Shasta County.
Sales, Use, & Other Taxes	\$7.9 million	Sales and use tax, Transient Occupancy Tax (tax on temporary lodging within the County), and other miscellaneous taxes.
Investment Earnings	\$3.2 million	Earnings from the Treasurer's investments of the County Treasury pool per approved investment policy.
Miscellaneous	\$5.0 million	Revenues comprised of reimbursements, various miscellaneous revenues, and settlements.

County Expenses

Total Expenses

The County's total expenses for FY 2018 were \$318 million, an increase of approximately \$15 million or 4.9% from the prior year. Expenses compromise the cost of County operations and are presented below based on function.



Function	Amount	Description
General Government	\$11.7 million	General Government expenses are generated by the Board of Supervisors, County Administrative Office, County Counsel, Clerk of the Board, Auditor-Controller, Assessor, Treasurer-Tax Collector, etc. Most functions considered part of the general government fall into this category.
Public Protection	\$96.4 million	Public Protection departments consists of the Sheriff, Jail Operations, Probation, Public Defender, District Attorney, Planning, Building, Child Support, etc. Functions deemed to protect the public generally fall into this category. Approximately 31.5% of these expenses funded by the General Fund.
Public Ways and Facilities	\$16.4 million	Public Ways and Facilities includes all operations of the Roads Department as well as the operations of the various County Permanent Road Divisions (owner supported agreements for the maintenance of private roads).
Health and Sanitation	\$64.0million	Public Health, Mental Health, Drug and Alcohol Programs and Environmental Health are the primary departments in this category. Approximately 0.85% of these expenses funded by the General Fund.
Public Assistance	\$121.6 million	Public Assistance is comprised of Social Services, Indigent Care, Economic Assistance, and Housing. Approximately 3.35% of these expenses are funded by the General Fund.
Education	\$1.6 million	Education expenses are primarily the County contribution to the library system.
Recreation	\$0.15 million	Expenses related to County parks and Veteran's facilities.
Interest on Debt	\$0.9 million	Interest on debt is related to the Shasta County Administrative Center Bonds, the Courthouse Improvement Bonds, and Energy Retrofit projects.
Enterprise Funds	\$6.1 million	Expenses related to providing services in the various County Service Areas, Permanent Road Divisions, Solid Waste Operations, Transit and Fall River Mills Airport.

CalPERS Pension

Pension

All qualified permanent and probationary employees are eligible to participate in Shasta County's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers.

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Members

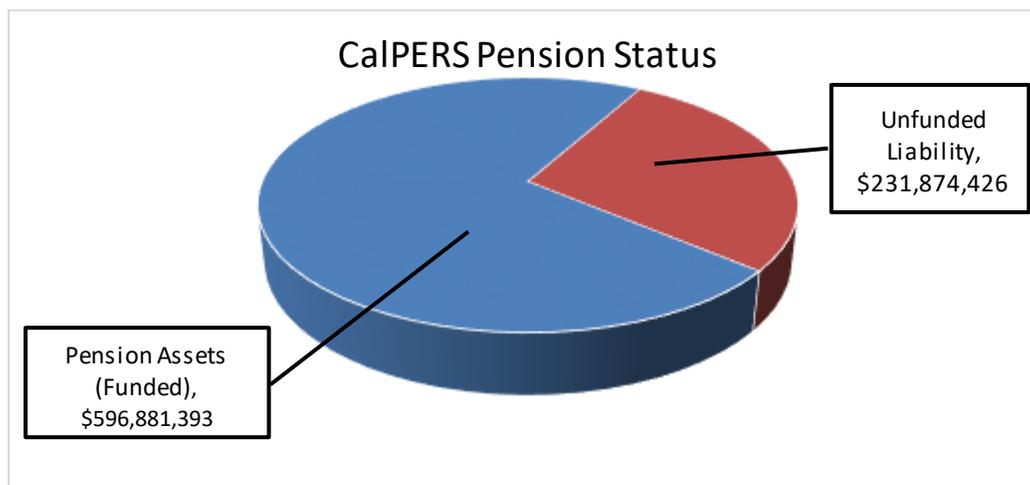
There are 1,936 active employees, 2,575 inactive employees or beneficiaries currently receiving benefits, and 1,595 inactive employees entitled to but not receiving benefits. The average retired employee or beneficiary annual compensation was \$19,167.

Net Pension Liability (NPL)

The County's NPL is measured as the total pension liability less the plans assets. The total liability is determined by an actuarial study. This study calculates the liability based on age, retirement age, mortality, inflation, and earnings on plan assets. The actuarial study also determines the amount of employee and employer contributions for the corresponding time period. Recent State legislation has placed reforms on pensions in order to preserve the fund for future generations.

As of June 30, 2017, the County's total pension liability (Safety and Miscellaneous) was \$828,755,820, with plan assets of \$596,881,393, resulting in a NPL of \$231,874,426. For the same period, employer contributions were \$19,117,753, employee contributions were \$6,921,460, and investment earnings were \$62,147,191. The same period also saw interest charges (on the total pension liability) of \$56,122,084 and benefit payments of \$42,099,019. The Safety Plan was considered funded at 67% and the Miscellaneous Plan was funded at 74%. A plan is considered 100% funded when sufficient assets are on hand to pay all current and future retiree pension costs.

A more comprehensive look at the County retirement plan can be viewed in the County Annual Comprehensive Financial Report for the year ending June 30, 2018.



Other Post Employment Benefits (OPEB)

Other Post Employment Benefits (OPEB)

The County of Shasta Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan administered by the County. The plan provides healthcare benefits to eligible retirees and their dependents. The Plan does not issue a financial report.

The County provides retiree healthcare benefits to employees retiring directly from the County. Medical coverage is provided through CalPERS healthcare program (PEMHCA) except for County Trades and Crafts/Teamster provided through the union sponsored plan. The County pays a portion of retiree healthcare premiums that vary by bargaining unit and length of service according to bargaining agreements. Also under requirements of state and local law, the County pays the medical insurance coverage for employees that retire due to disability. No vision or life insurance benefits are provided.

The County has prefunded a portion of its OPEB benefits in Public Agency Retirement Services Trust (PARS). PARS is a Internal Revenue Code Section 115 trust designed for agencies to accumulate resources for future obligations. PARS invests the funds per the Trust agreement with the County.

Members

There are 1,774 active participants and 1,334 inactive employees or beneficiaries currently receiving benefits. All new hires after January 1, 2017, will be eligible to participate in a County sponsored 401 (a) plan in lieu of retiree healthcare benefits. Eligible employees must participate in a deferred compensation plan to be eligible for participation in the 401 (a) plan. New hires will only be eligible for the CalPERS Minimum Required Contribution towards healthcare. The implementation of the 401 (a) plan is projected to allow the County to be fully funded by 2039/40.

Net OPEB Liability

The County's Net OPEB Liability is measured as the total OPEB liability less the plans assets, similar to the pension calculation. The total liability is determined by an actuarial study. This study calculates the liability based on age, mortality, health care inflation rates, and earnings on plan assets.

As of June 30, 2018, the County's total OPEB liability was \$225,598,339, with plan assets of \$49,709,508, resulting in a Net OPEB Liability of \$175,888,831. The County funds the OPEB plan on a pay-go basis as well as funding the PARS trust with a 3% of total payroll contribution. Pay-go funding means that all current retiree health care costs are paid directly from current County resources. Total contributions (pay-go and trust contributions) for the year ended June 30, 2018 were \$11,146,352

A more comprehensive look at the County OPEB plan can be viewed in the County Annual Comprehensive Financial Report for the year ending June 30, 2018.

