



MEMORANDUM

TO: CITY COUNCIL

FROM: JAMES A. BERGMAN, CITY MANAGER

BY: CAROLYN GALLOWAY-COOPER, INTERIM DIRECTOR OF ADMINISTRATIVE SERVICES

SUBJECT: CONSIDERATION OF GENERAL FUND 10-YEAR FISCAL FORECAST

DATE: FEBRUARY 25, 2020

SUMMARY OF ACTION:

Review and discuss a 10-Year forecast of revenue and expenditures for the General Fund.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

There is no direct financial impact of the fiscal forecast other than the staff time required to prepare it; however based on the forecast, significant financial impacts are projected in future years.

RECOMMENDATION:

It is recommended the City Council receive and file the updated General Fund 10-Year Fiscal Forecast.

BACKGROUND:

Two years ago, the General Fund Forecast indicated a structural budget situation in which expenditures were anticipated to consistently exceed revenues due to rising costs of providing services. The City Council adopted a budget with the express intent to eliminate the structural budget situation by:

- Reducing operational costs by approximately \$86,000 in FY 2018-19 and \$160,000 in FY 2019-20.
- Increasing fees for services in the Community Development Department and the Recreation Department.
- Paying down \$5 million in CalPERS unfunded liability debt.
- Reducing staffing levels and in turn service levels in the community by 7.4 full time equivalent employees. Staff reductions and reorganizations are seen in the Community Development Department, Public Works Department, and the Police Department (non-sworn positions).

**CITY COUNCIL
 CONSIDERATION OF GENERAL FUND 10-YEAR FISCAL FORECAST
 FEBRUARY 25, 2020
 PAGE 2**

After two years, the General Fund Fiscal Forecast, which marks the beginning of the FY 2021 budget planning process, projects a General Fund surplus (revenues exceed expenditures) of \$125,000 in FY 2021.

A continuously improving economic climate is noted by the majority of national, State, regional and local economic indicators. This Forecast assumes a continued, gradual growth of the national economy with positive impacts to the local economy, which is reflective in staff's estimates of the economically sensitive revenue estimates.

Revenues:

The Forecast assumes an overall revenue increase of just over \$500,000, or 3% in FY 2020-21. Increases were projected in Property Tax (5%), Transient Occupancy Tax (TOT) (11%), Franchise Fees (19%) and Sales Tax (.05%).

As Table 1 below depicts, based on the FY 2020-21 Forecast near status quo Budget, staff anticipates General Fund revenues to exceed expenses by approximately \$125,000 for FY 2020-21. Based on the assumptions of the Forecast, this positive trend of revenue over expenditures is anticipated in all out-years of the Forecast through 2030. During this forecast period, surpluses range between \$80,000 and \$532,000 per year.

TABLE 1										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenues	\$ 18,999	\$ 19,596	\$ 20,249	\$ 20,933	\$ 21,384	\$ 21,789	\$ 22,212	\$ 22,644	\$ 23,086	\$ 23,536
Total Expenditures	\$ 18,874	\$ 19,516	\$ 19,772	\$ 20,509	\$ 20,852	\$ 21,306	\$ 21,772	\$ 22,250	\$ 22,779	\$ 23,328
Net one-time Surplus (shortfall)	\$ 125	\$ 80	\$ 478	\$ 424	\$ 532	\$ 483	\$ 440	\$ 394	\$ 307	\$ 208

Expenditures:

Using a near status quo budget, General Fund expenditure categories are estimated to increase by approximately \$1 million, or 6% primarily due to increased salary and benefits, minor capital outlay, capital improvements, vehicle and technology replacements. Salary and benefits account for about 80% of the increase and the other categories are at about 20% of the estimated cost increase. Overall operating costs are expected to increase moderately.

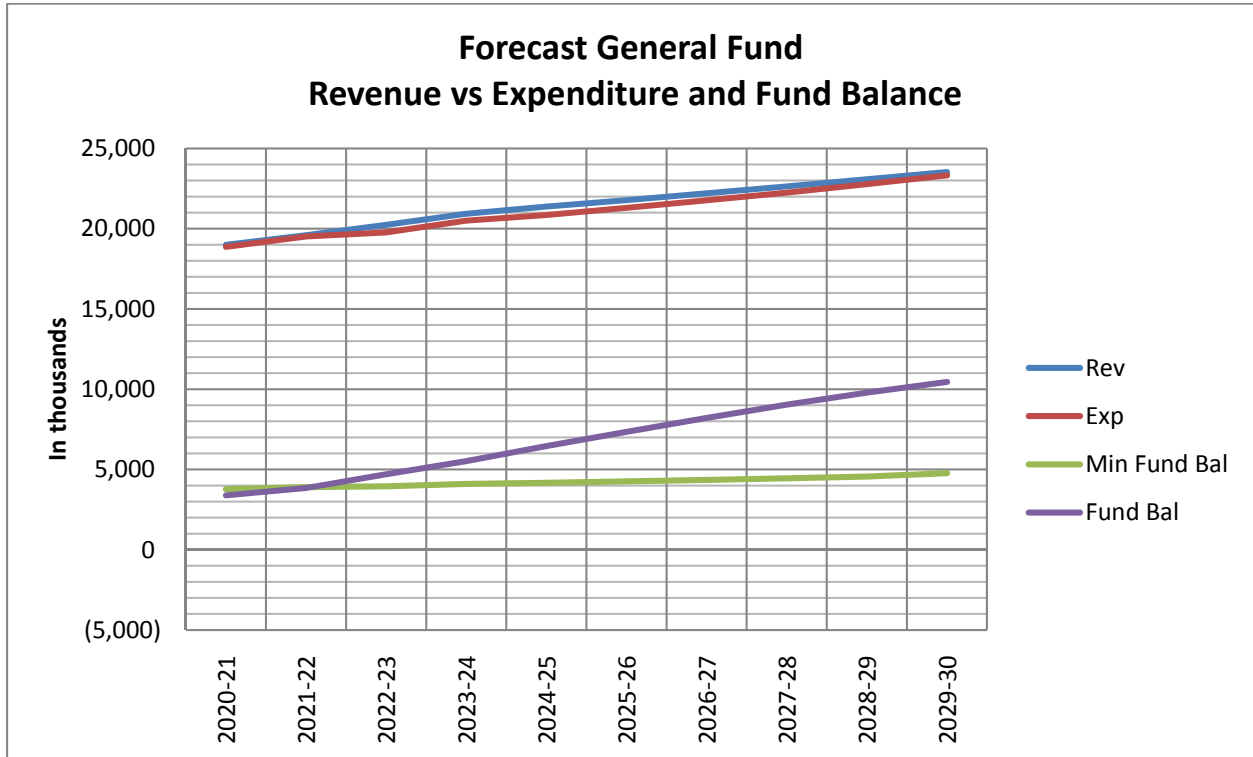
The Forecast anticipates salary increases and associated CalPERS costs in the first two years of 2% each year. Expenditure savings is anticipated with decreases in the estimated annual payments to CalPERS for the Unfunded Liability (Police). The one-time payments made to pay down the liability caused a decrease in the payment from over \$900,000 in FY 2018-19 to about \$500,000 in FY 2020-21. Although the Police payments went down, CalPERS increased the annual payment for Miscellaneous from about \$800,000 in FY 2018-19 to about \$1.1 Million in FY 2020-21. Employer cost rates are projected to increase by at least 1%.

Other categories causing an increase in expenditures are vehicle replacements at \$55,000, capital improvement projects at \$20,000, and technology replacements at \$100,000.

**CITY COUNCIL
 CONSIDERATION OF GENERAL FUND 10-YEAR FISCAL FORECAST
 FEBRUARY 25, 2020
 PAGE 3**

Fund Balance:

Assuming a General Fund Reserve requirement at the City Council-approved target level of 20% of General Fund operating expenditures, the graph below reflects Table 1 revenues and expenditures and positive fund balances for all years of the Forecast. Fund balances range between 18 – 45% and fall above the target level in all years except FY 2020-21.



Forecast Assumptions:

This Forecast presents a positive fiscal outlook for the City’s General Fund. It is important to note that it does not include the following potential impacts, which can increase or decrease the projected annual surpluses and shortfalls to the FY 2020-21 Budget and the out-years of the Forecast: (1) ongoing labor negotiations; (2) unpredictable CalPERS actuarial assumptions related to future Pension costs; (3) Diablo Canyon and PG&E economic losses that may have future impacts on various tax revenues; and (4) unpredictable workers compensation costs.

Consistent with prior years, the methodology for calculating changes for the out-years of the Forecast are based on a historical analysis of increases using an estimated annual growth rate with adjustments factored in for known items. The Forecast is developed using data from the State of California, the City’s sales and property tax consultant, San Luis County Property Tax division and other outside agencies. Discussions with internal staff about the types and levels of services provided by the City now and in the future were part of our analysis.

**CITY COUNCIL
 CONSIDERATION OF GENERAL FUND 10-YEAR FISCAL FORECAST
 FEBRUARY 25, 2020
 PAGE 4**

Staff reviewed the CalPERS Unfunded Liability and the projected employer contributions scheduled by CalPERS. The graph below shows balances due for the six plans as of 6/30/2020 (other funds are responsible for a portion of the total amount due). Also, note that CalPERS used a Valuation date of 6/30/18, which reflects a time lag and may not show all extra one-time payments made by the City.

By making regular scheduled employer contributions, three plans will be paid off in FY 2021-22 and one plan will be paid off in FY 2024-25 (highlighted below). The other two plans have much higher balances and will take longer to pay off. An annual analysis of the CalPERS Unfunded Liability should be part of the budget planning process. A review of General Fund surplus and fund balance should be analyzed to determine the possibility of increased payments on the high balances in order to save amortization costs by paying the debt off sooner than CalPERS estimates.

Unfunded Liability at 6/30/2020 (6/30/2018 Valuation Date)			
PERS Plans	Balance at 6/30/20	Payment due 2020-21*	Scheduled Payoff (from PERS)
Police	6,502,774	484,036	out-years
Police - 2nd Tier	48,065	10,766	24-25
Police - PEPR	19,425	10,250	21-22
Miscellaneous	13,113,919	1,094,032	out-years
Miscellaneous - 2nd Tier	21,326	11,254	21-22
Miscellaneous - PEPR	41,716	22,013	21-22
TOTAL:	19,747,225		
*Payments vary each year (up and down)			

Conclusion

This Forecast projects a General Fund surplus for all forecast years and a positive financial outlook for the City related to fund balance. This Forecast focuses on a near status quo budget but does not address major policy issues such as significant deferred maintenance of public infrastructure and assets or unfunded CalPERS pension liabilities.

Additionally, it is important to be aware of cautionary issues facing municipalities today; (1) growing unfunded liabilities for pension and retiree healthcare benefits; (2) seeking to remain a competitive employer to keep and attract a talented workforce; and (3) facing challenges to maintain its infrastructure and address other needs. These strategic long-term efforts will require additional funding in the FY 2020-21 Proposed Budget and beyond.

During the next few months, staff will continue to monitor revenue sources as well as update revenues and expenditures, as applicable, based on newly available information. This updated information will be reflected in the FY 2020-21 Proposed Budget, which is scheduled to be reviewed by the City Council in May 2020.

**CITY COUNCIL
CONSIDERATION OF GENERAL FUND 10-YEAR FISCAL FORECAST
FEBRUARY 25, 2020
PAGE 5**

ALTERNATIVES:

1. Receive and file the updated General Fund 10-Year Fiscal Forecast;
2. Direct staff to engage an independent consultant to prepare a fiscal forecast. This is not recommended as it would be an unbudgeted expense and is unlikely to result in a significantly different outcome.

ADVANTAGES:

Receiving the 10-Year Fiscal Forecast will assist in informed discussions between the community, City Council and staff about budgetary priorities as the City develops the FY 2020-21 Budget.

DISADVANTAGES:

There are no disadvantages.

ENVIRONMENTAL REVIEW:

No environmental review is required for this item.

PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

Attachments:

1. 10 Year General Fund Fiscal Forecast

**General Fund Ten Year Financial Forecast
(Minimum 15% Fund Balance Policy/20% Fund Balance Goal)**

In Thousands	Budget 2019-20	TEN YEAR FINANCIAL FORECAST									
		2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
REVENUES & OTHER SOURCES											
Sales Tax - General	\$ 4,087	\$ 4,107	\$ 4,173	\$ 4,261	\$ 4,350	\$ 4,442	\$ 4,535	\$ 4,630	\$ 4,727	\$ 4,827	\$ 4,928
Sales Tax - Proposition 172	154	155	157	161	164	167	171	174	178	182	186
Property Tax	5,134	5,389	5,658	5,941	6,238	6,332	6,427	6,523	6,621	6,721	6,821
Property Tax in lieu of VLF	1,719	1,810	1,901	1,996	2,095	2,158	2,180	2,213	2,246	2,279	2,314
Transient Occupancy Tax	1,142	1,199	1,247	1,291	1,323	1,356	1,376	1,397	1,418	1,439	1,461
Business Licenses	100	103	105	108	112	115	119	122	126	130	134
Franchise Fees	690	711	728	743	758	773	789	804	820	837	854
Real Property Transfer Tax	110	110	110	110	113	117	120	124	128	131	135
Aid From Other Governments											
Other Subventions & Grants	136	143	150	158	161	164	168	171	174	178	181
Service Charges											
Recreation Fees	795	816	837	862	888	915	942	971	1,000	1,030	1,061
Permits & Licenses	557	571	586	604	622	641	660	680	701	722	744
Community Development Charges	514	524	535	545	556	567	579	590	602	614	627
Other Service Charges	166	169	173	176	180	183	187	191	194	198	202
Other Revenues											
Fines & Forfeitures	45	46	47	48	49	50	51	52	53	54	55
Use of Money & Property	462	462	462	462	471	481	490	500	510	520	531
Other Revenues	31	32	33	34	35	36	37	38	39	40	41
Transfers											
Transfer from Local Sales Tax Fund	223	224	228	232	237	242	247	253	258	263	269
Personnel, Cost & Operating Transfers	2,415	2,427	2,466	2,518	2,581	2,645	2,711	2,779	2,849	2,920	2,993
Total Revenues	\$ 18,480	\$ 18,999	\$ 19,596	\$ 20,249	\$ 20,933	\$ 21,384	\$ 21,789	\$ 22,212	\$ 22,644	\$ 23,086	\$ 23,536

General Fund Ten Year Financial Forecast

In Thousands	Budget	TEN YEAR FINANCIAL FORECAST									
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
EXPENDITURES & OTHER USES											
Salary & Benefits	\$ 11,264	\$ 11,779	\$ 12,068	\$ 12,016	\$ 12,547	\$ 12,707	\$ 13,049	\$ 13,411	\$ 13,782	\$ 14,162	\$ 14,553
PERSable compensation	5,905	6,007	6,027	6,045	6,064	6,082	6,221	6,363	6,507	6,654	6,804
PERS Costs	2,177	2,532	2,711	2,586	3,034	3,143	3,245	3,361	3,481	3,605	3,733
PERS Unfunded Liability Costs - one tim	2,000	-	-	-	-	-	-	-	-	-	-
Part Time/non-PERSable comp	1,021	1,088	1,121	1,149	1,172	1,184	1,219	1,256	1,294	1,332	1,372
PT PERS impacts		103	113	99	106	110	113	116	120	123	127
Insurance (including Workers Comp)	1,492	1,537	1,583	1,623	1,655	1,672	1,722	1,774	1,827	1,882	1,938
Medicare, FICA, other	466	511	512	514	515	517	529	541	553	566	578
Pre-fund Retiree Medical Costs	235	235	235	235	235	235	235	235	235	235	235
Operating Programs	5,809	6,334	6,812	7,113	7,246	7,318	7,465	7,614	7,766	7,922	8,080
FCFA contribution	2,052	2,465	2,865	3,107	3,179	3,211	3,275	3,341	3,408	3,476	3,545
All other operating programs	3,757	3,870	3,947	4,006	4,066	4,107	4,189	4,273	4,358	4,446	4,535
Debt Service	230	126	52	52	52	52	52	52	52	40	40
Minor Capital Outlay	127	65	65	65	75	75	75	75	75	75	75
Capital Improvement Projects	-	20	20	20	40	40	50	50	50	50	50
Vehicle Replacements	-	55	55	55	55	150	150	100	50	55	55
Technology Replacements	-	100	50	55	100	115	70	75	80	80	80
Transfers Out	160	160	160	160	160	160	160	160	160	160	160
Total Expenditures	\$ 19,825	\$ 18,874	\$ 19,516	\$ 19,772	\$ 20,509	\$ 20,852	\$ 21,306	\$ 21,772	\$ 22,250	\$ 22,779	\$ 23,328
Revenues Over (Under) Expend.	\$ (1,345)	\$ 125	\$ 80	\$ 478	\$ 424	\$ 532	\$ 483	\$ 440	\$ 394	\$ 307	\$ 208
Unspent appropriations (incr. fund bal)	433	362	378	383	396	401	410	420	436	446	457
AVAILABLE FUND BALANCE											
START OF YEAR	\$ 3,816	\$ 2,903	\$ 3,390	\$ 3,848	\$ 4,708	\$ 5,528	\$ 6,460	\$ 7,354	\$ 8,214	\$ 9,044	\$ 9,797
Reserve for carryover											
END OF YEAR	2,903	3,390	3,848	4,708	5,528	6,460	7,354	8,214	9,044	9,797	10,462
Fund Balance Goal-20% Expend	\$ 3,965	\$ 3,775	\$ 3,903	\$ 3,954	\$ 4,102	\$ 4,170	\$ 4,261	\$ 4,354	\$ 4,450	\$ 4,556	\$ 4,666
Ending Fund Balance %	15%	18%	20%	24%	27%	31%	35%	38%	41%	43%	45%

General Fund Ten Year Financial Forecast

PROJECTION FACTORS	TEN YEAR FINANCIAL FORECAST									
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
DEMOGRAPHICS										
Population	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Housing Units	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Inflation	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Compound Pop & Inflation	2.6%	2.6%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
KEY REVENUES										
Sales Tax	0.5%	1.6%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Property Tax	5.3%	5.0%	5.0%	5.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
TOT	5.0%	4.0%	3.5%	2.5%	2.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Business License/Tax			<i>2019-20 Projection Plus Compound Population and Inflation</i>							
Franchise Fees	3.0%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Property Tax in lieu of VLF	5.3%	5.0%	5.0%	5.0%	3.0%	1.0%	1.5%	1.5%	1.5%	1.5%
Development Review Fees			<i>2019-20 Projection Plus Compound Population and Inflation</i>							
Recreation Fees			<i>2019-20 Projection Plus Compound Population and Inflation</i>							
EXPENDITURES										
Salary	2.0%	0.0%	0.0%	0.0%	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%
PERS Benefits	17.5%	12.2%	2.0%	2.8%	3.6%	3.2%	3.6%	3.6%	3.6%	3.5%
Non-PERS Benefits	3.5%	3.0%	2.5%	2.0%	1.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Operating Programs	3.0%	2.0%	1.5%	1.5%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Debt Service			<i>Based on Lease Purchase Contracts for Vehicle Replacements</i>							