



ATTACHMENT 1



Long-Term Financial Forecast

January 20, 2026

Roadmap

- Introduction
- Big Picture
- Historical Comparison
- Preliminary Long-Term Findings
 - Key Assumptions
 - Results
- Measure G

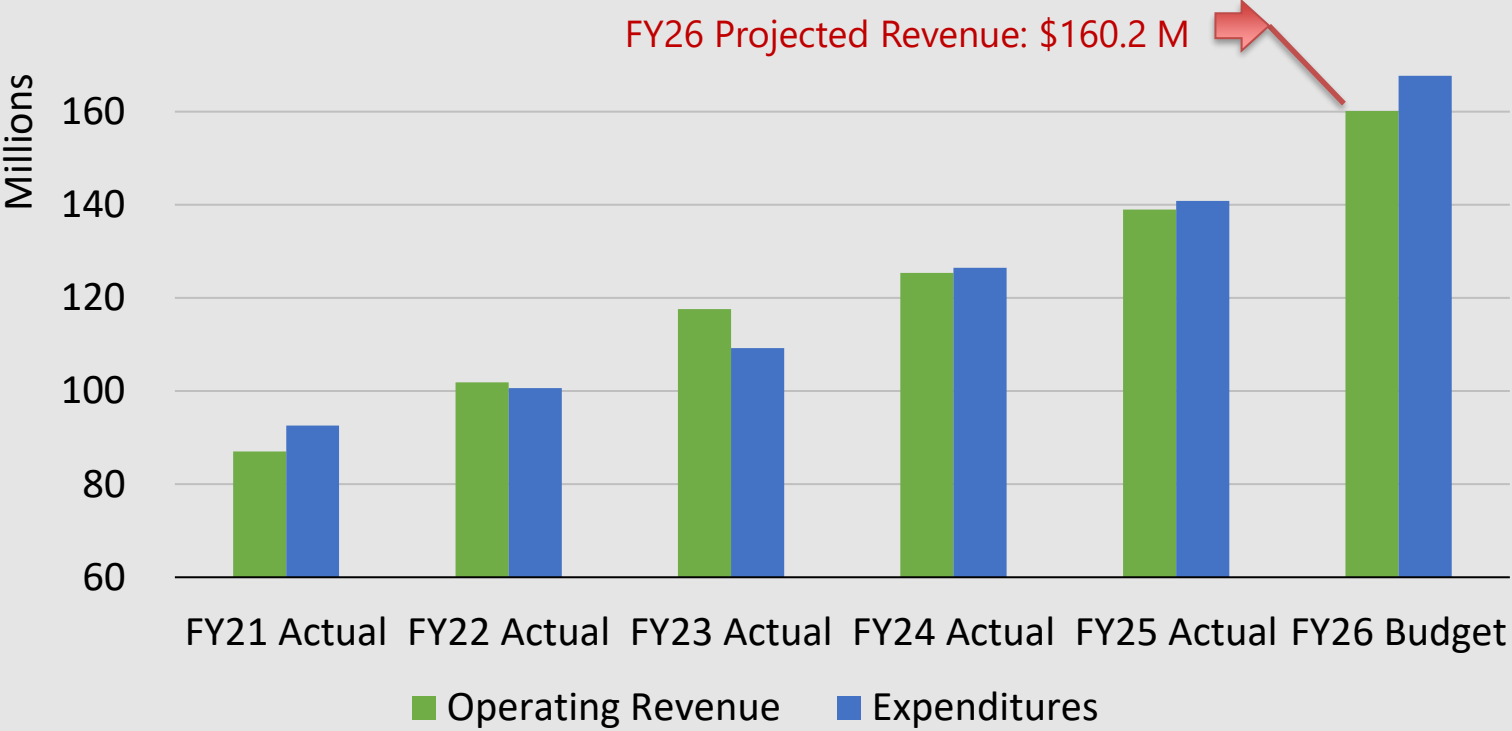


The Big Picture

- Introduction of Measure G
- Revenue growth in line with planned spending
- Expenditures continuing to increase but lower than projected revenue in all future years
- External Pressures & Uncertainty
 - Inflation (Services & Supplies)
 - Labor & Pension Costs
 - Self-Funded Insurances
 - Potential loss of significant revenue sources



General Fund Financial Status



Operating Revenue only shown; does not include one-time revenues used to balance the General Fund in FY21 through FY26



Financial Status Update

FY 2024/25

- Property and Sales Tax continues to grow at a more moderate rate
- Measure G collection began April 1, 2025
 - \$22 million annual programmed for new projects & core services enhancements
- Transient Occupancy Tax had a strong FY25 Q4 yielding higher than projected actuals
- Inflation still a factor and labor and insurance costs continue to rise
- One-Time dollars have been used since FY20 to balance the General Fund budget
- General Fund Reserves fully funded



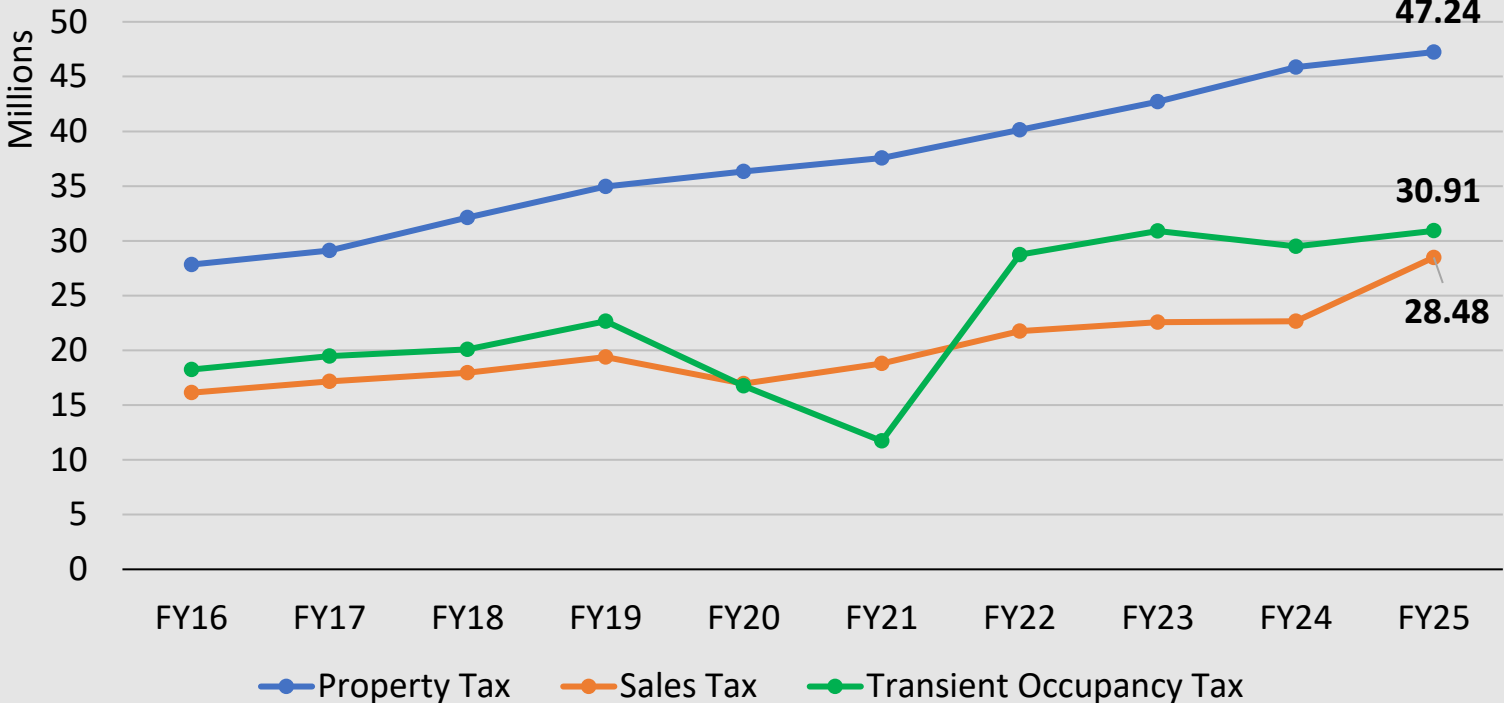
Long-Term Financial Forecast

- Components
 - Financial Trend Analysis – 5 Year (4 year history + current budget)
 - Rapid growth out of last recession can skew analysis of current trends
 - Financial Forecast – 5 Years Forward
 - Economic Assumptions
 - Collaborative efforts with staff, professionals & consultants
 - Anticipated Development



Historical Revenue

Primary Revenue Sources



- Property Tax: average annual increase of 6.1% from FY16 – FY25
- Sales Tax: average annual increase of 6.5% from FY16 – FY25
- TOT: average annual increase of 6.0% from FY16 – FY25
 - Timeframe includes 5 new hotels and 1 hotel expansion



The Forecast....



The Forecast....

- Is a model that shows us what MIGHT happen in the future
- Revenue estimates based on our current best guess of economic outlook
- Expenditure estimates based on historical growth rates → what happens if we keep doing what we've been doing
 - Actuarial data – Unfunded Accrued Liability (UAL)



The Forecast....

- A set of reasonable, most likely assumptions about future revenues and expenditures based on current budget/trends
- Changes to assumptions → Changes in the forecast
- GFOA best practice for fiscal management
- Planning Tool
 - Allows us to model future impacts of current budget decisions
 - Allows us to see surplus/deficit trends over time
 - Assists us with making changes needed to avoid future deficits



The Forecast....

- Is not a budget – Council has final authority to establish the budget and amend it as needed
- Is not a labor relations plan – Collective bargaining is a separate process from forecasting; assumptions in the forecast are for modeling purposes only
- Is not a set of promises – COLA increase assumptions, operating budget growth assumptions, etc. are for modeling purposes only
- Is not set in stone – Assumptions are changed over time in response to a variety of factors and trends



Forecast....

- What's Included
 - Economic Assumptions
 - Major Development Currently Underway plus Anticipated Growth
 - Transfers Based on Current Fiscal Policy
- What's Not Included
 - Nonrecurring General Fund Revenue or ARPA Funding
 - New Positions
 - New programs or services



Forecast Assumptions

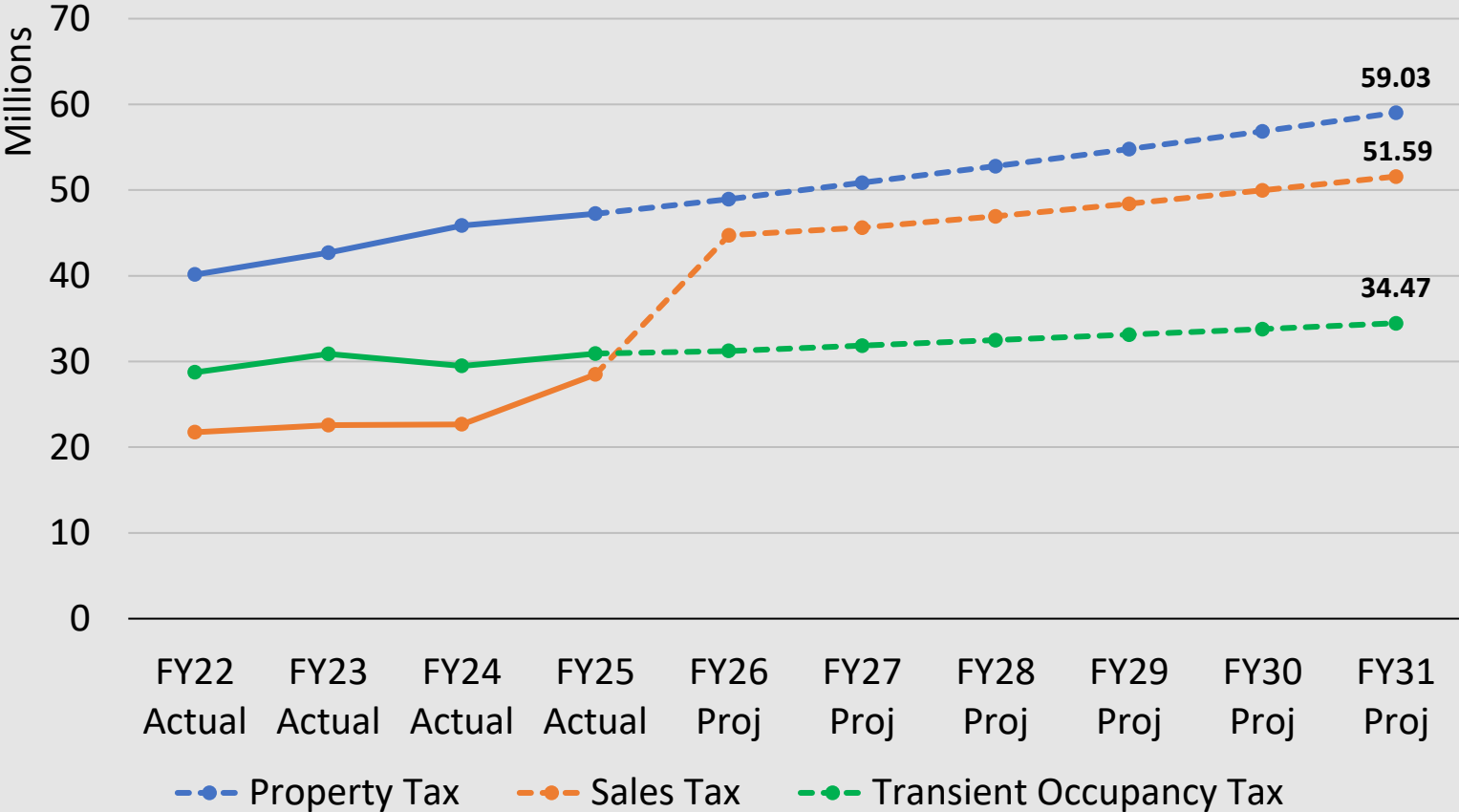
Annual Revenue Growth Rates

- Property Tax: 4.0% throughout forecast
- Sales Tax: 3.0% average annual growth
- Transient Occupancy Tax
 - FY26 – 1% on FY25 actual
 - FY27 – FY31 – 2%
 - Estimated projected new development

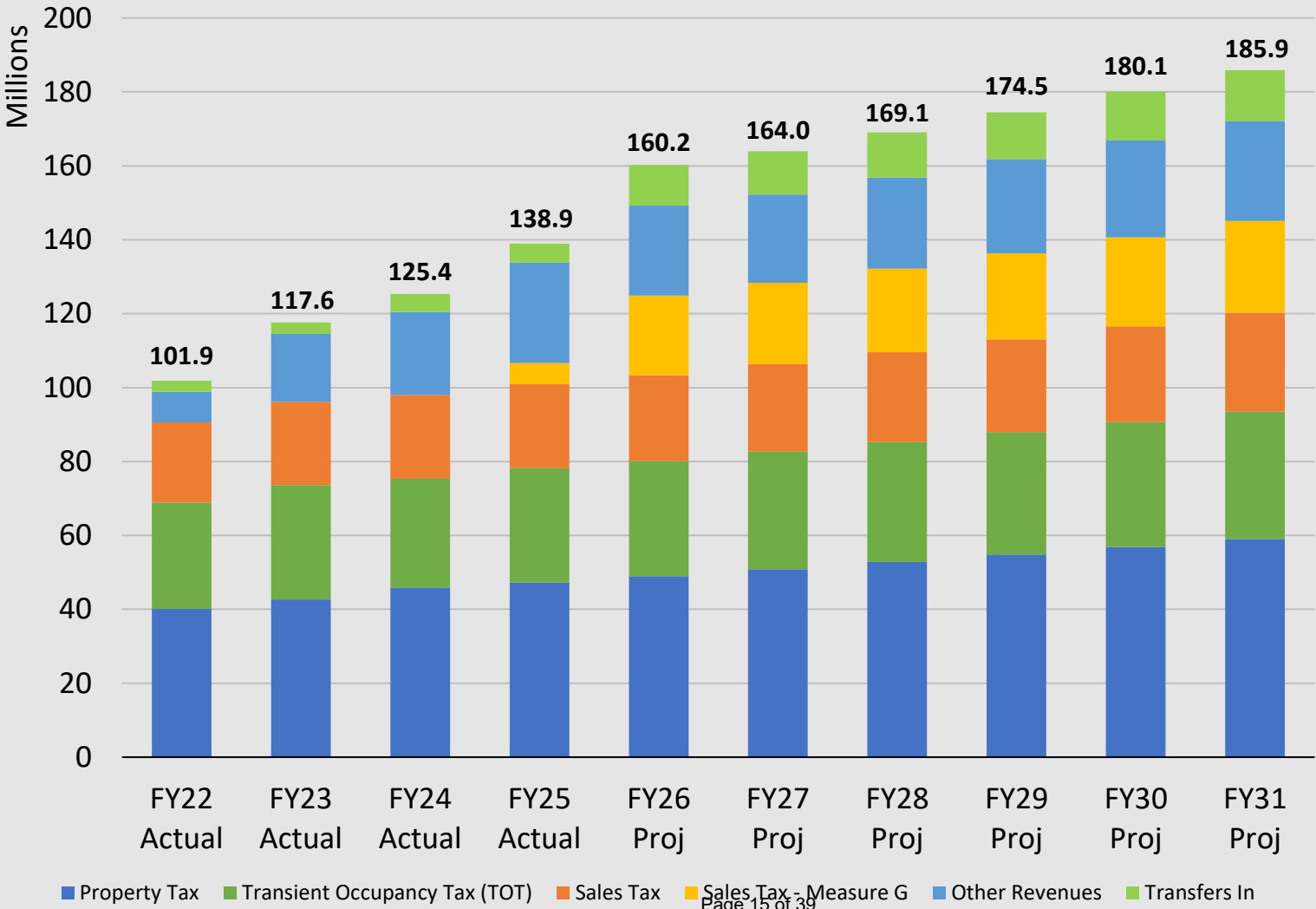


Property, Sales & TOT Revenue

Primary Revenue Sources



Revenue Forecast



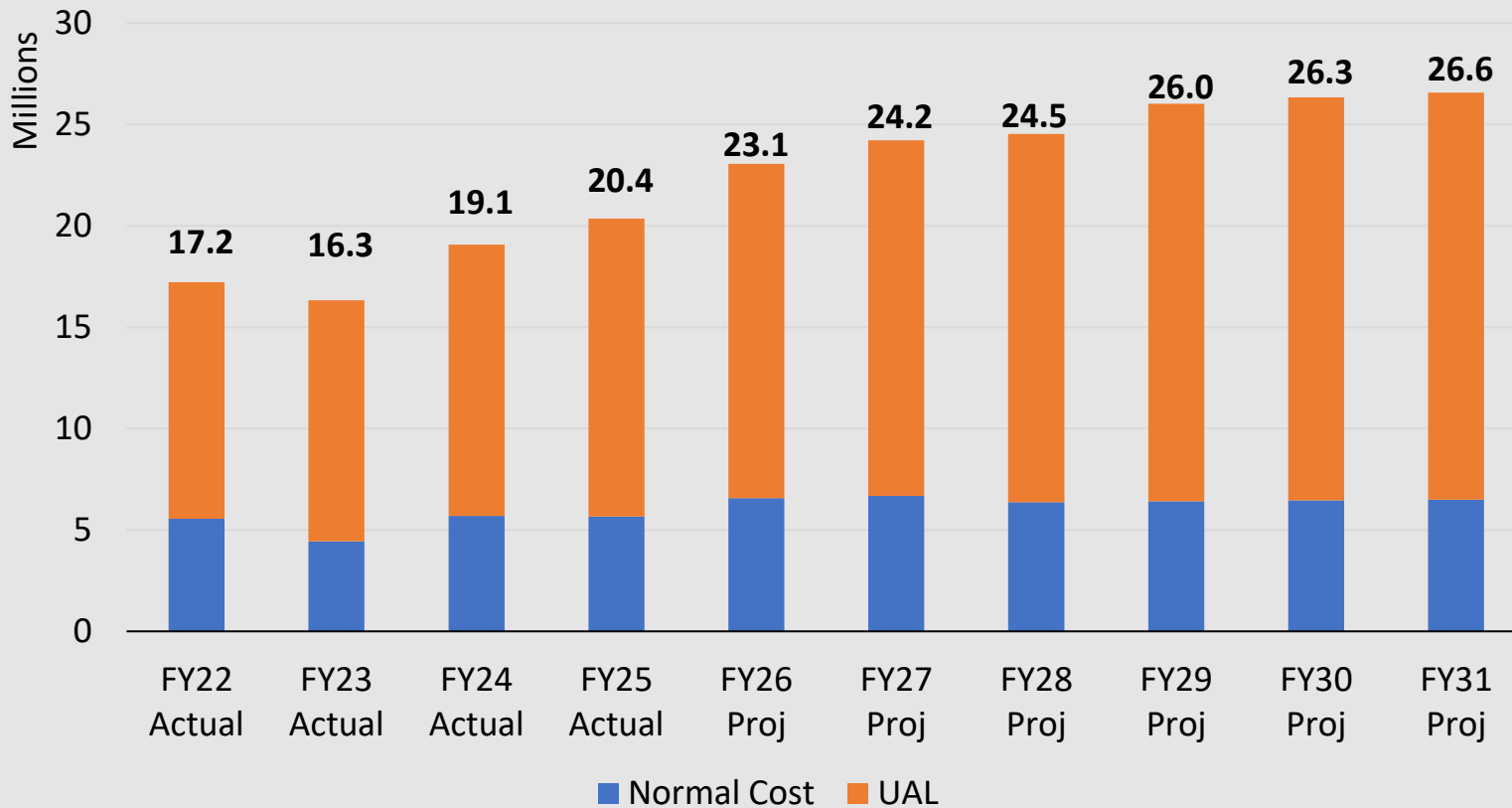
Forecast Assumptions

Annual Expenditure Growth Rates

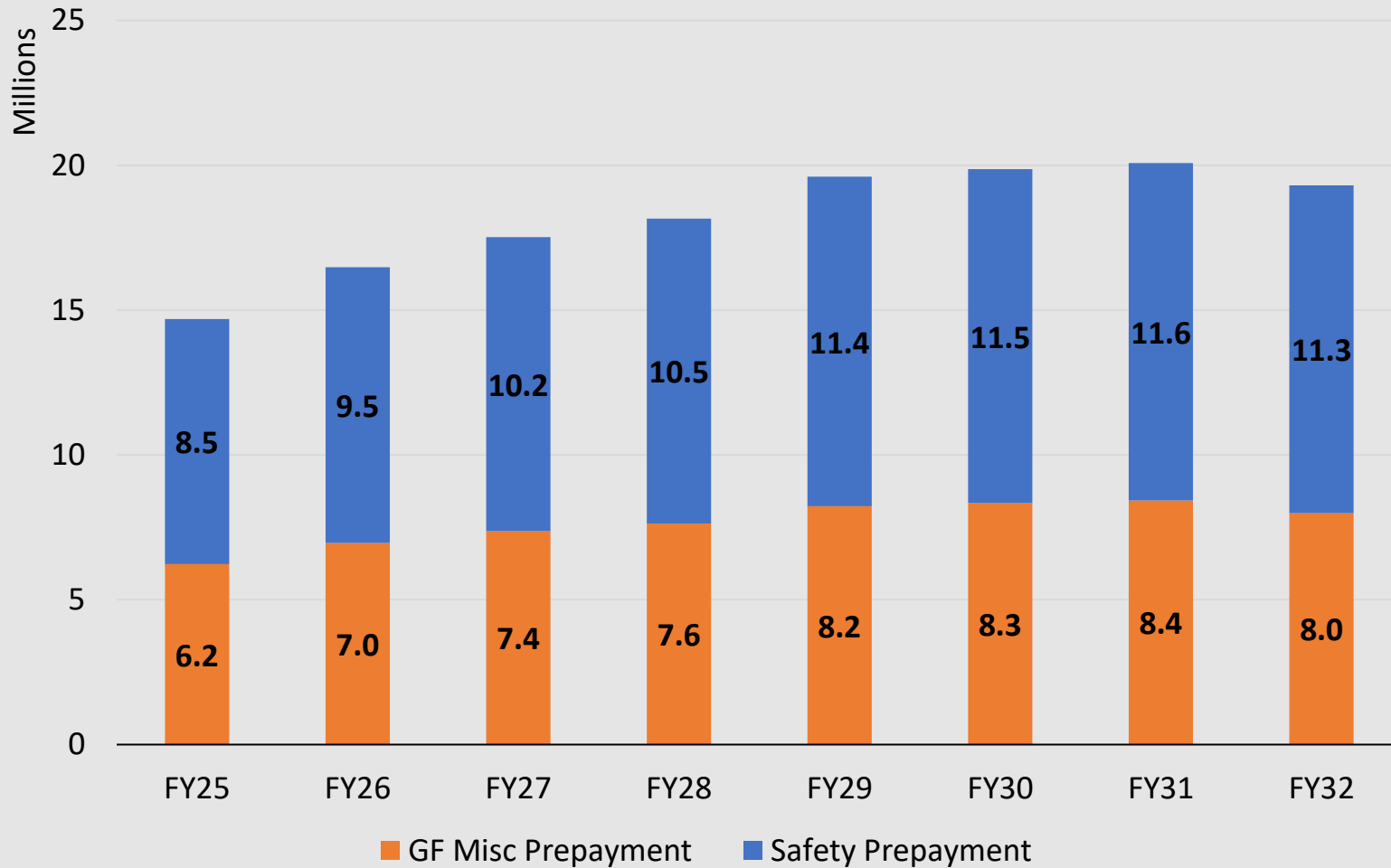
- Based on historical trends, core City services
- Staffing: No new positions beyond FY27 budget
- Salaries & Wages: 3.7% combined rate for COLA and step increases beyond MOUs
- 4.3% annual increase in healthcare/dental costs
- -0.3% average annual increase in CalPERS normal costs (payroll)
- CalPERS UAL schedule increasing 4.0%
 - Reflects rising annual costs, peaking in FY31 at \$20.1M (GF)



Projected CalPERS Costs General Fund Only



Projected CalPERS UAL Prepayments - GF



Projected CalPERS UAL All Funds



Forecast Assumptions

Annual Expenditure Growth Rates

- Semi-Discretionary
 - Services & Supplies: 9.7% - Capping at 5%
 - Utilities, Property Tax Administration Fees, Software Licenses, Payments to Other Agencies, etc.
 - Internal Services: Fleet 3.2%, Risk 12.7%
- Discretionary
 - Services & Supplies: 4.3% - Capping at 3%
 - Professional Services, General Supplies, Travel/Training, etc.
 - Transfer to Sidewalks Program:
 - \$0.9 million/year
 - Transfer to Paving Program
 - \$1.5 million/year



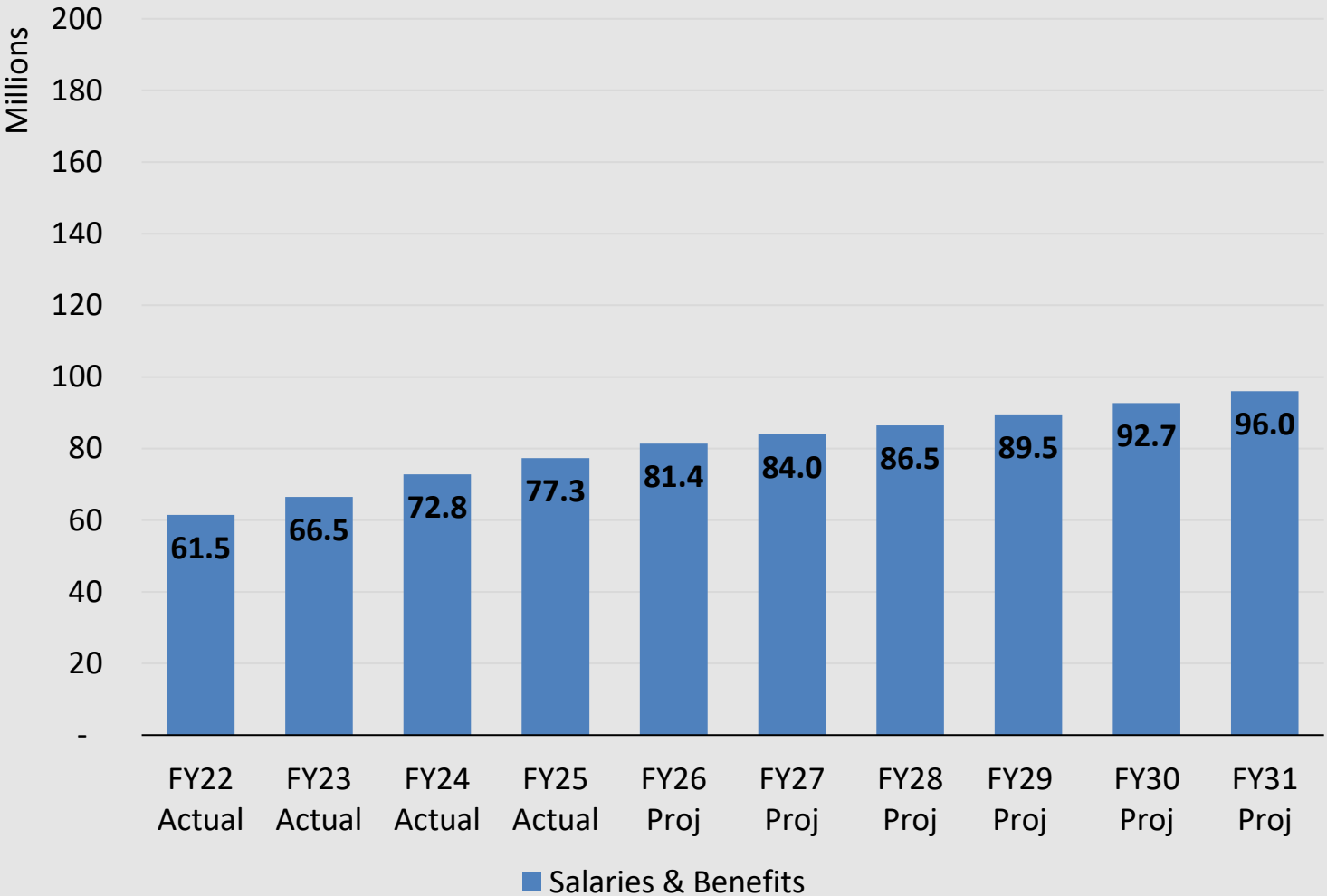
Forecast Assumptions

Annual Expenditure Growth Rates

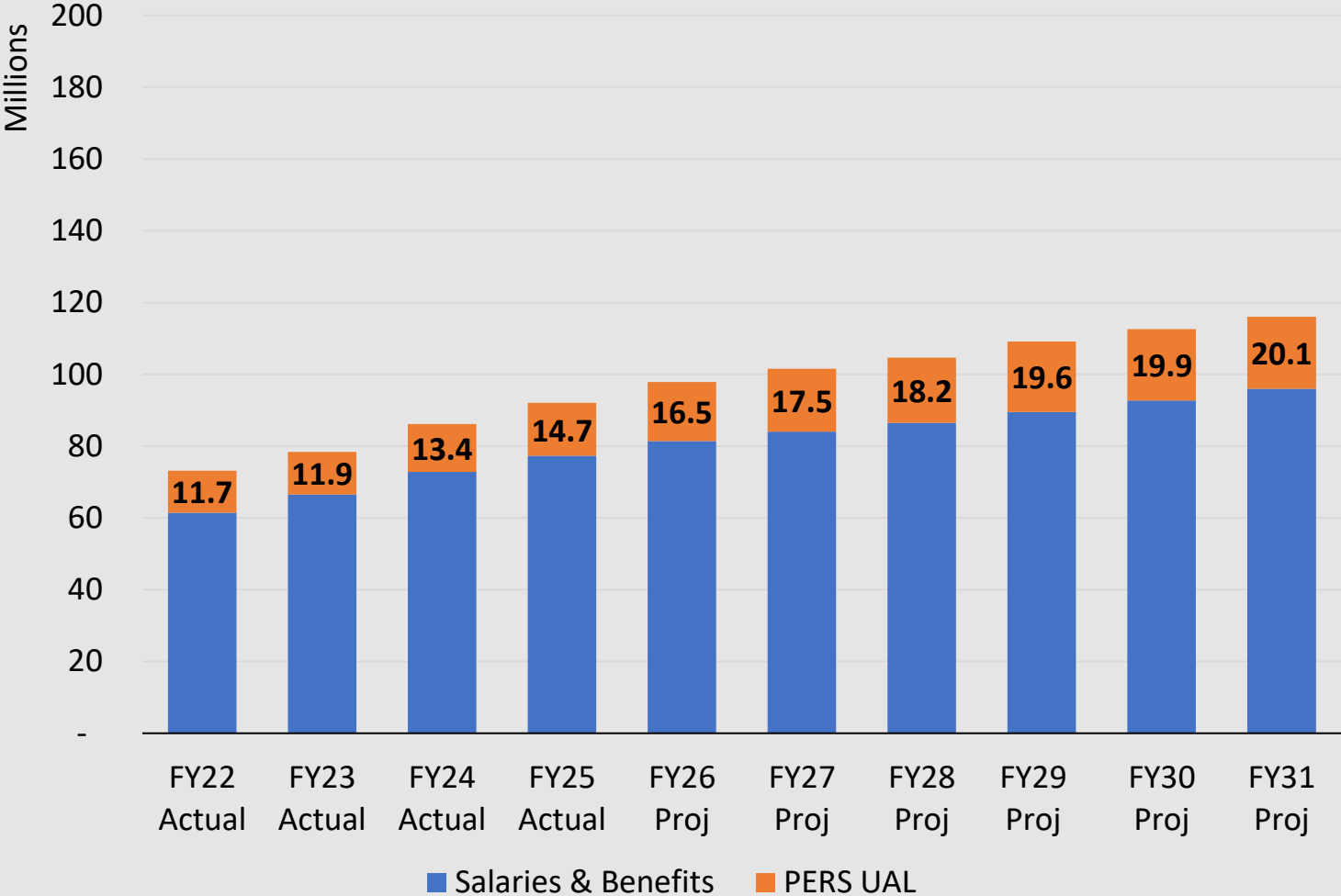
- Transfers Out per Fiscal Policy
 - CIP Facilities Reserve: 0.5% of Operating Budget
 - CIP General Fund Reserve: 0.5% of Operating Budget, plus \$0.10 million for the General Plan
 - Equipment Replacement Reserve: \$0.15 million/year
 - General Fund Reserves: bring balances up to equal 14% (Emergency), 5% (Operating), or 1% (Contingency) of Operating Budget



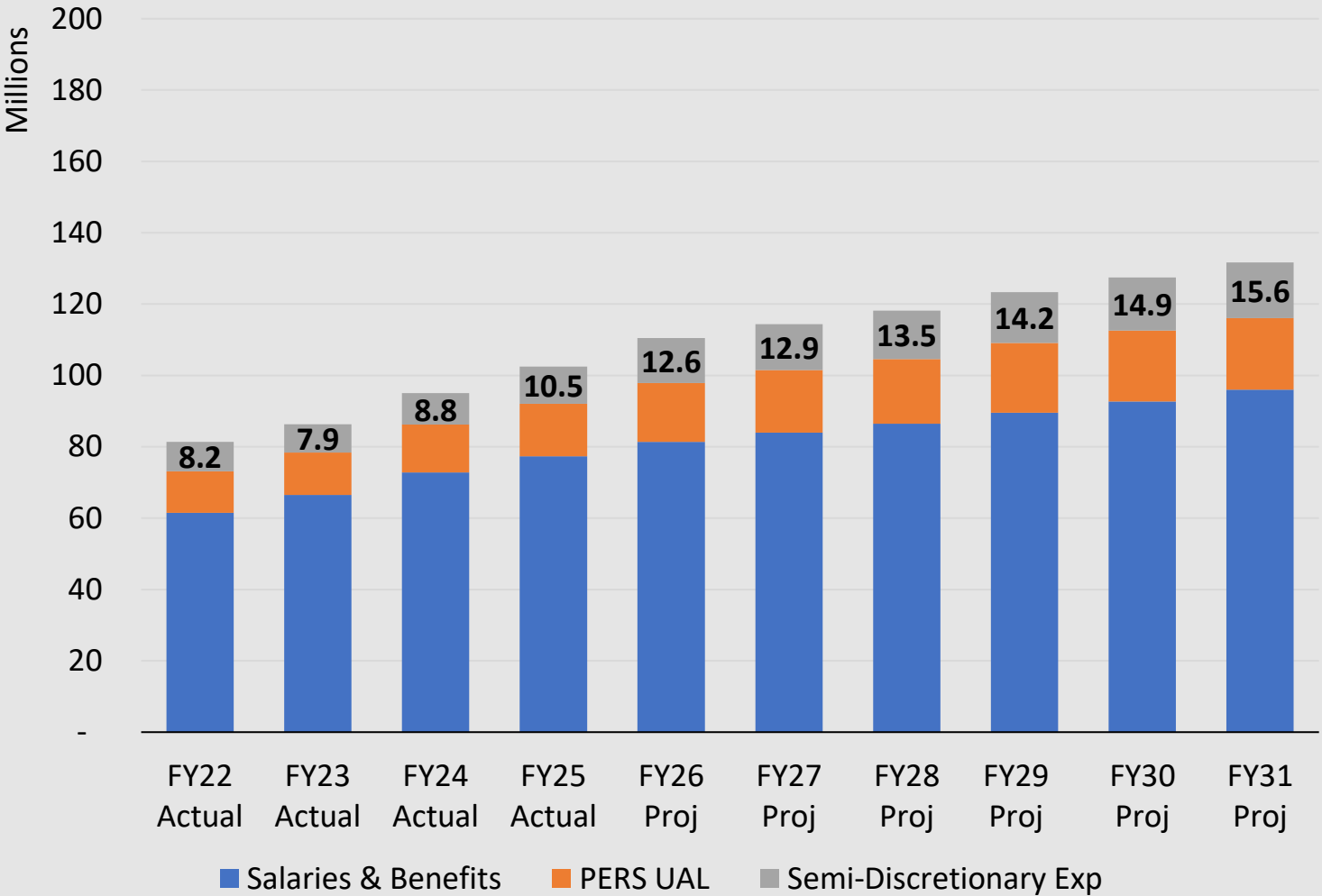
Expenditure Forecast



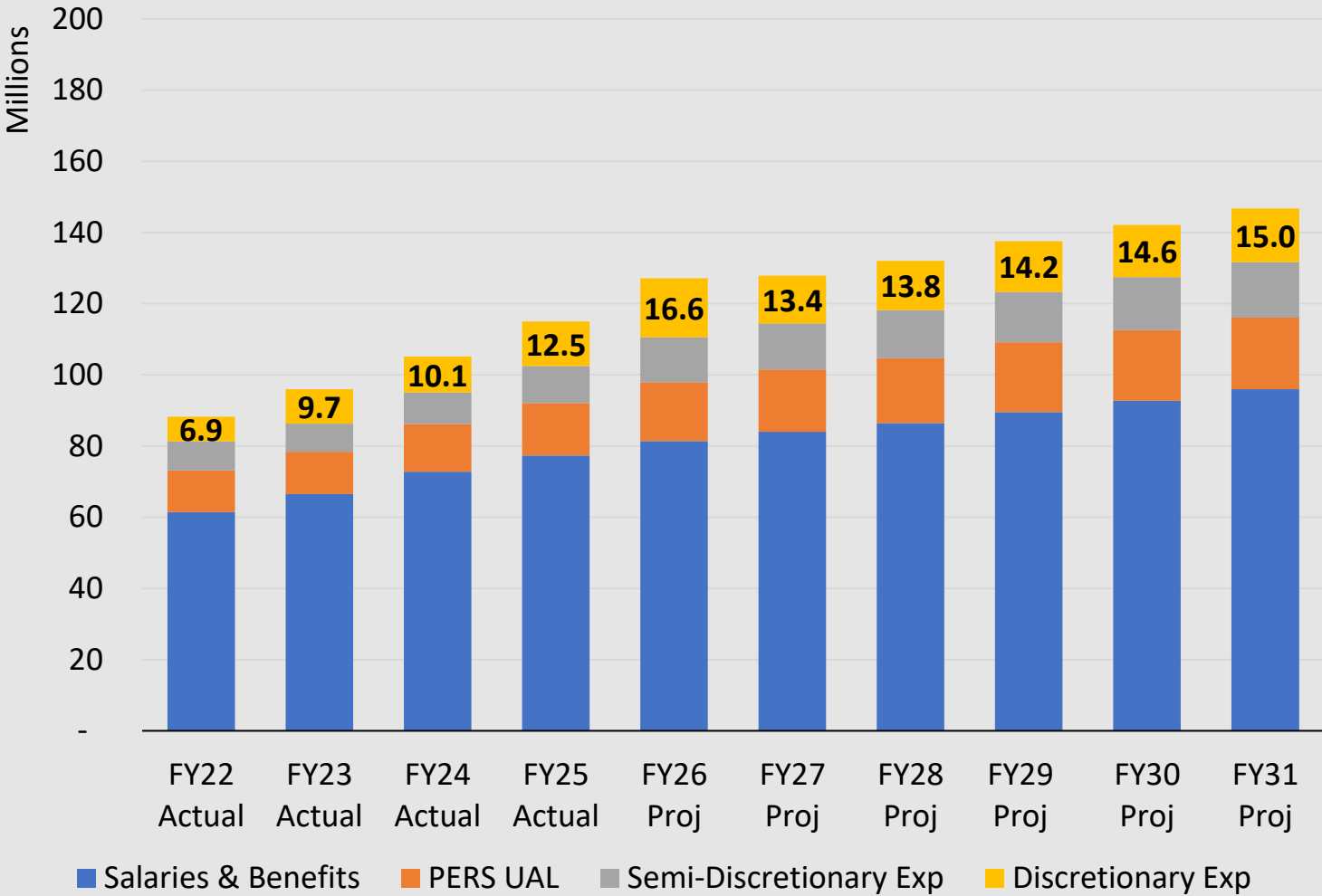
Expenditure Forecast



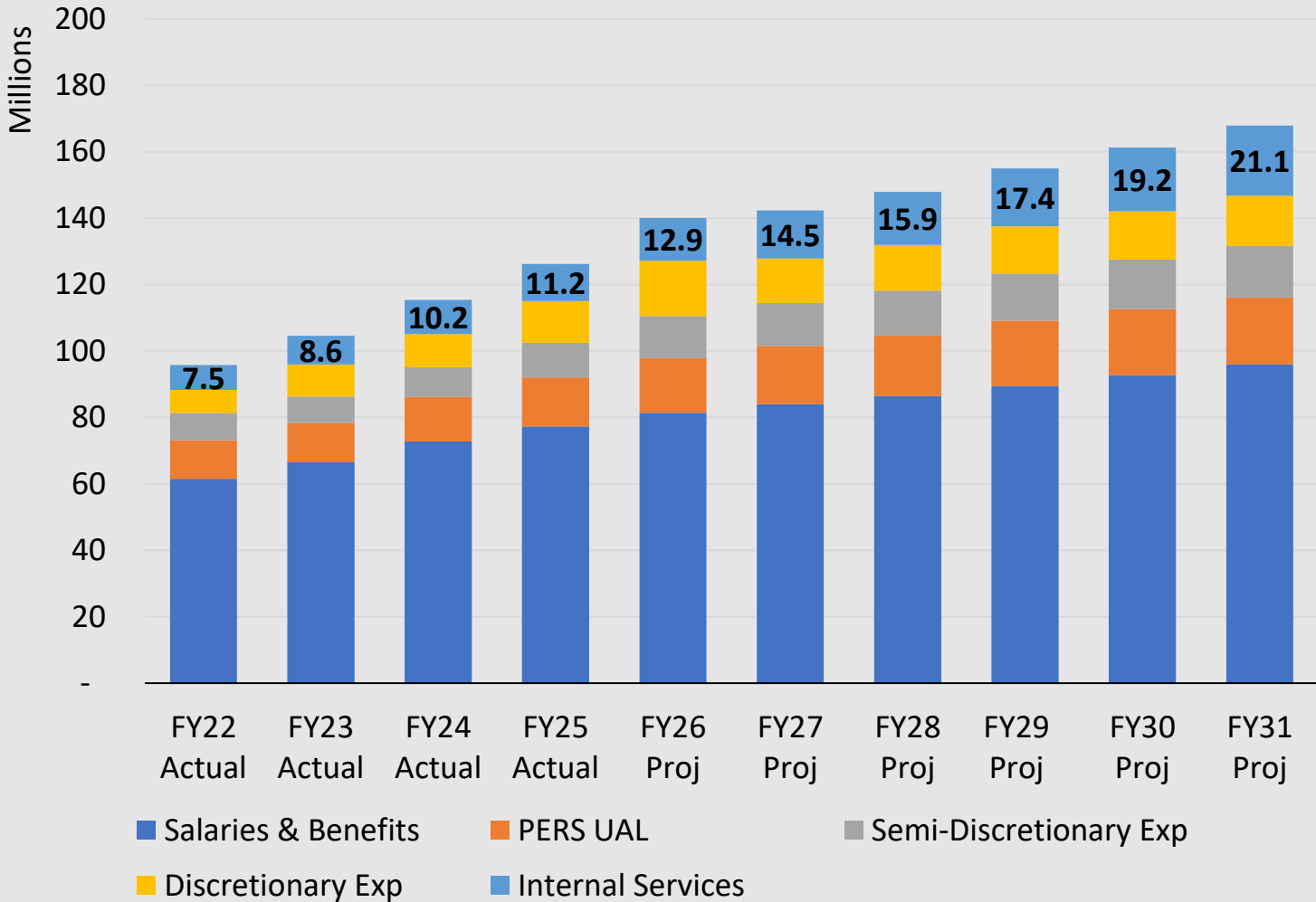
Expenditure Forecast



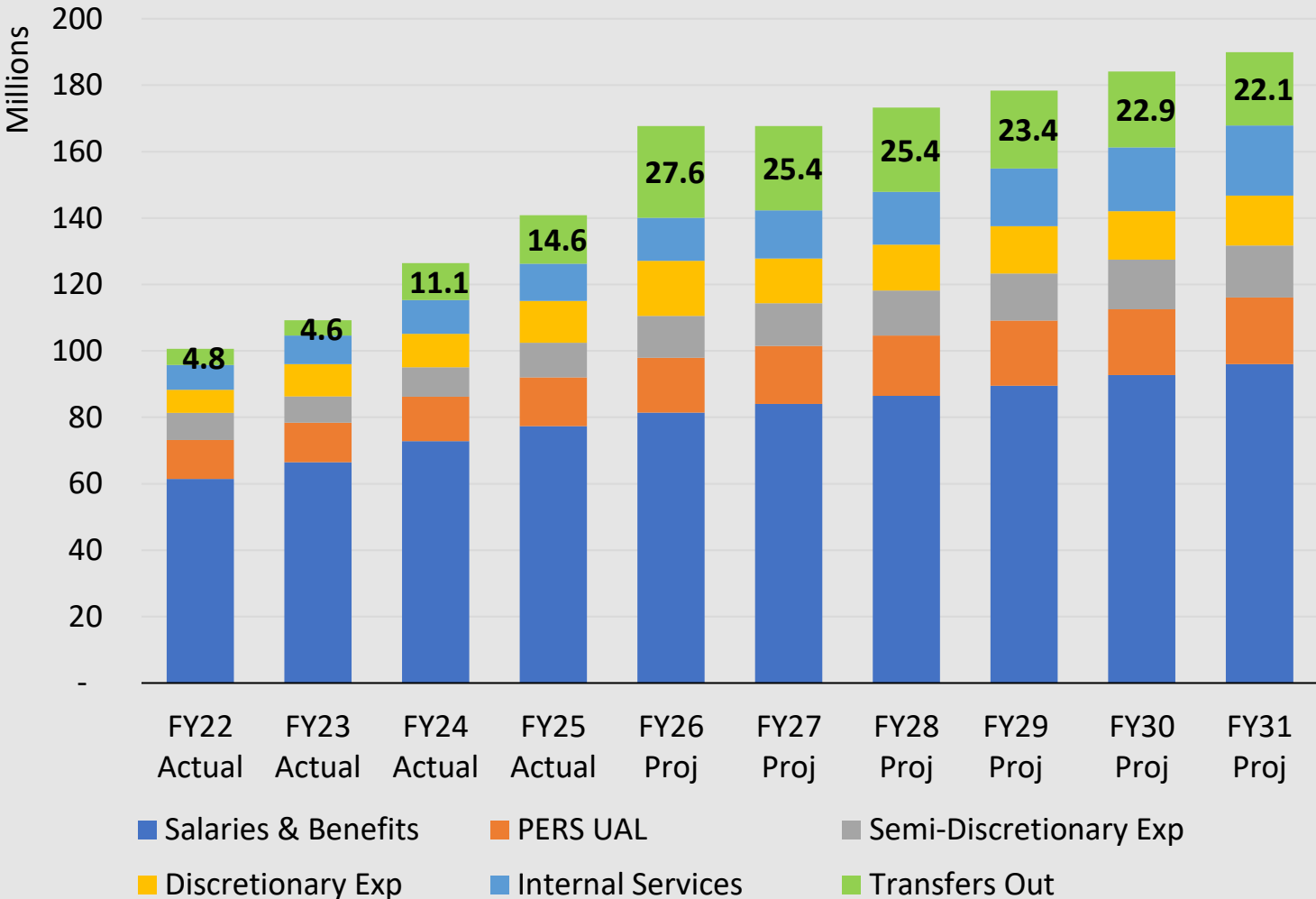
Expenditure Forecast



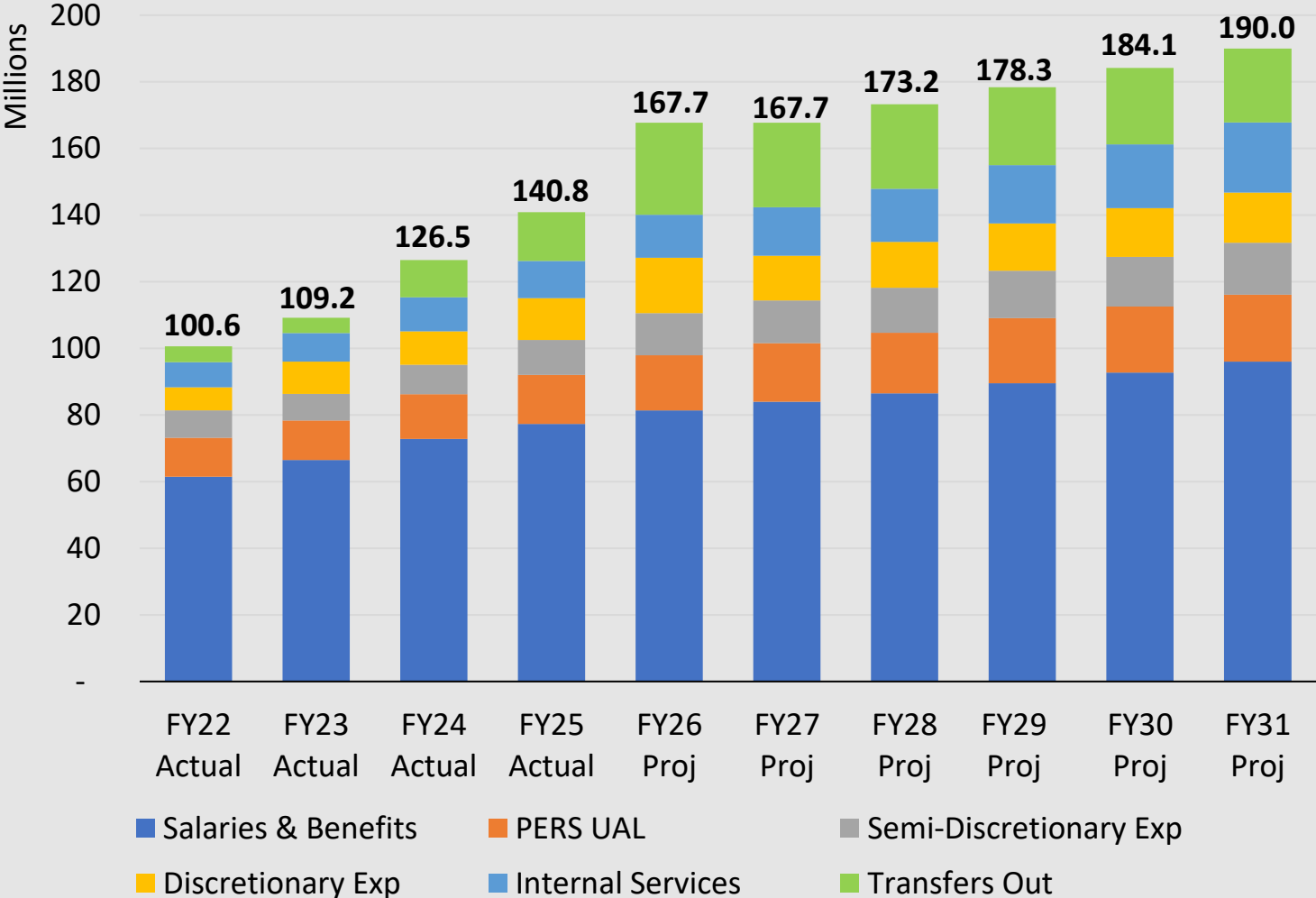
Expenditure Forecast



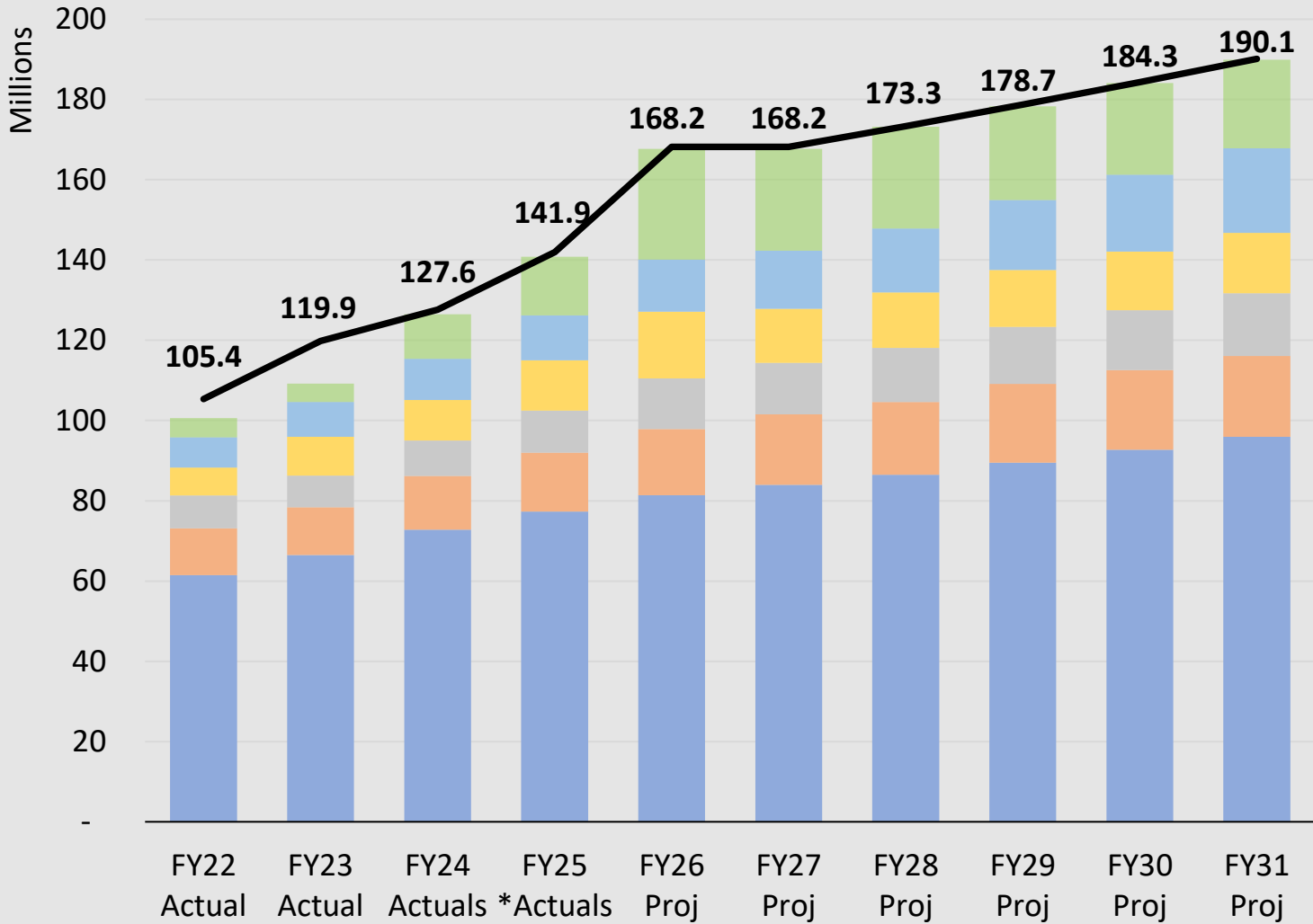
Expenditure Forecast



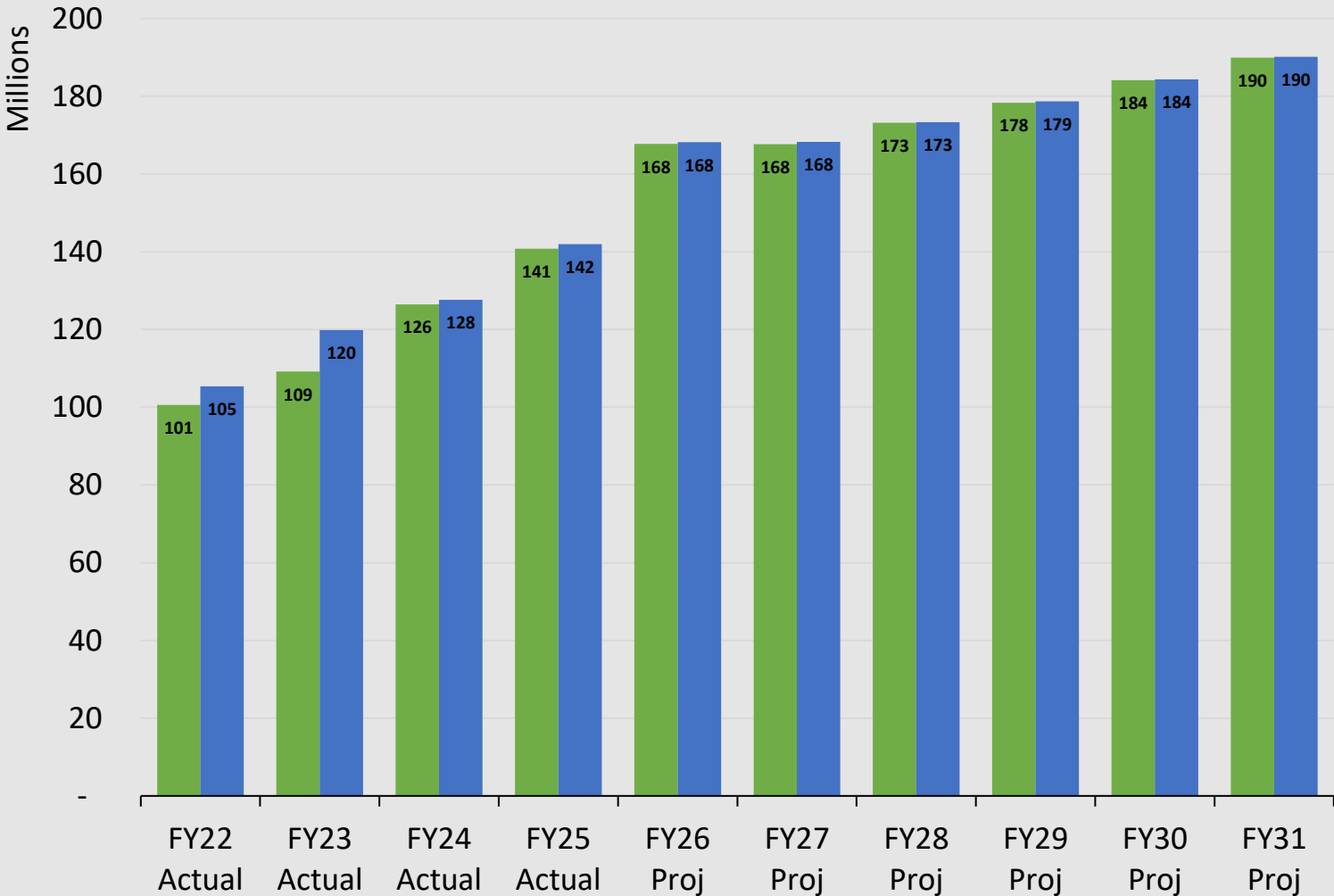
Expenditure Forecast



Revenues & Expenditures



Revenues & Expenditures

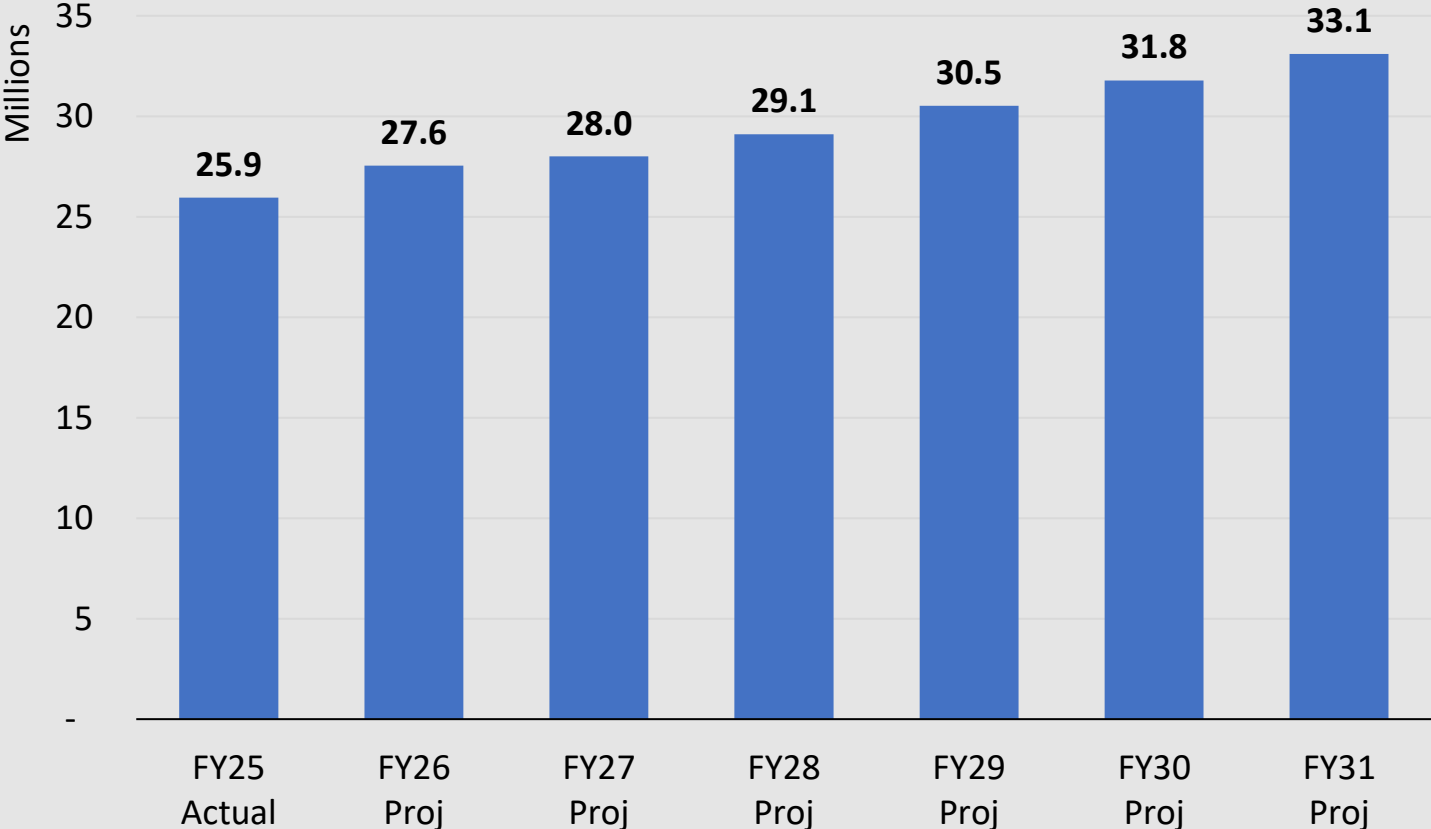


Includes continued use of one-time revenues through FY31



Usage of General Fund Reserves

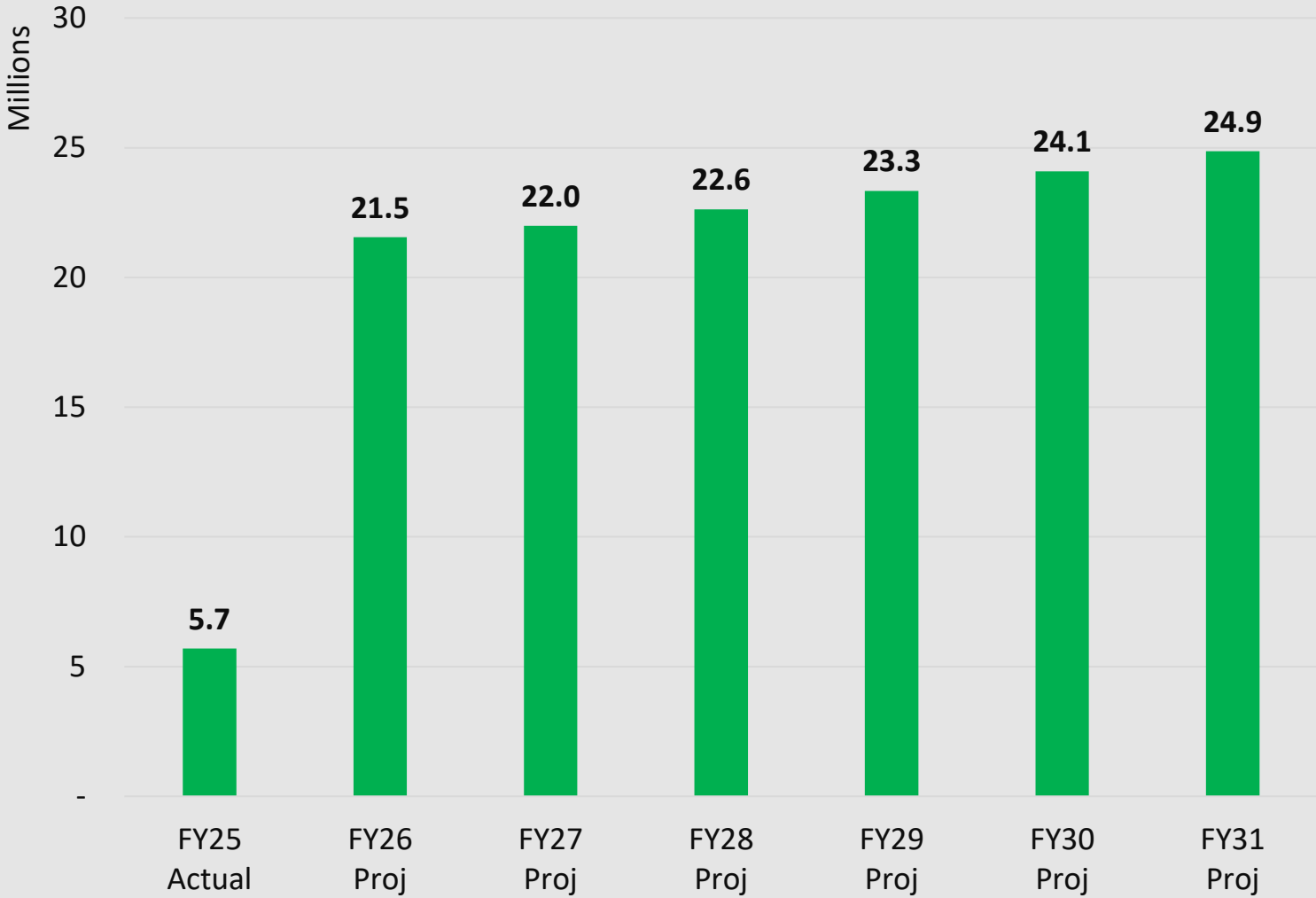
Projected General Fund Reserve Balances



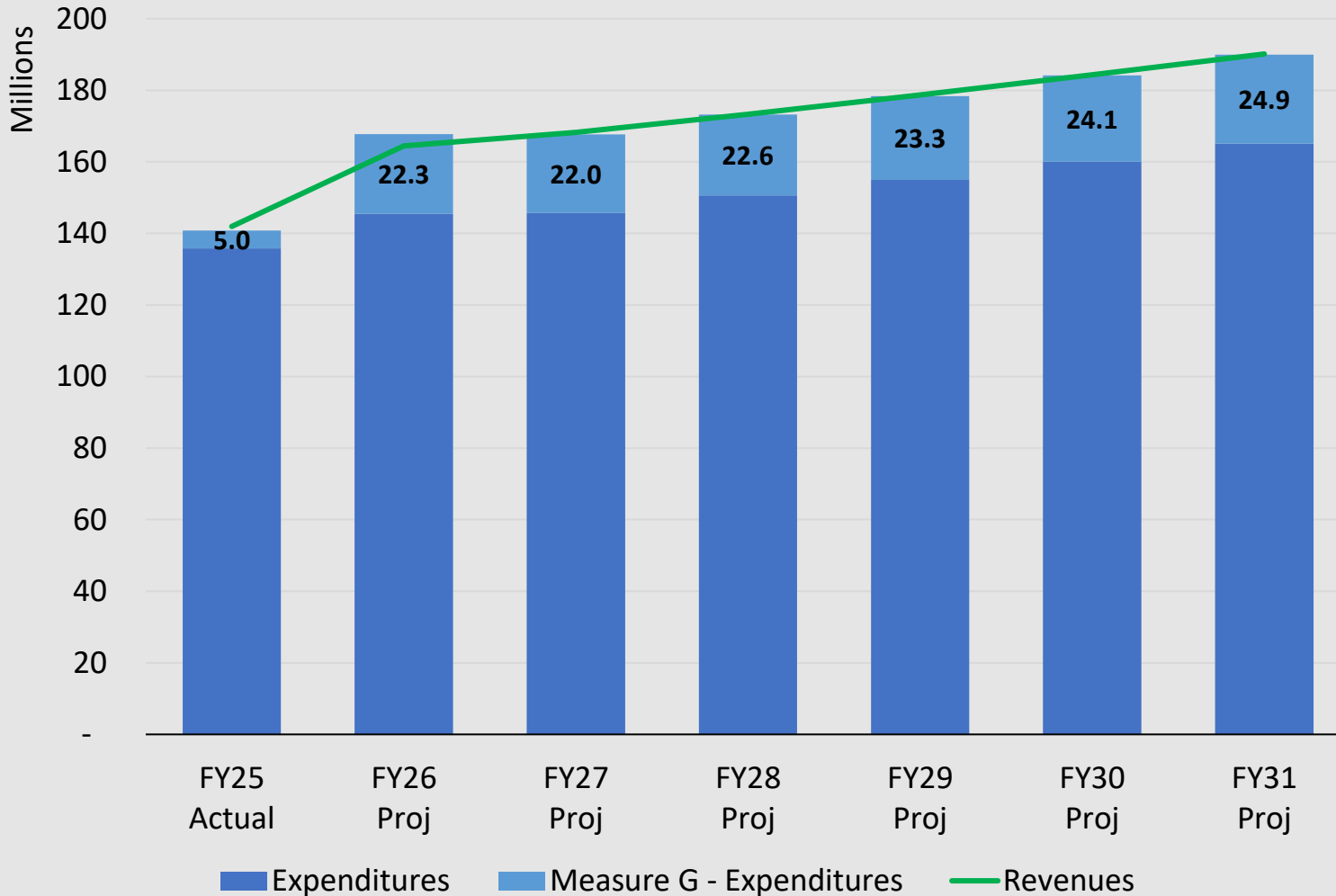
Measure G



Measure G - Projected Revenue



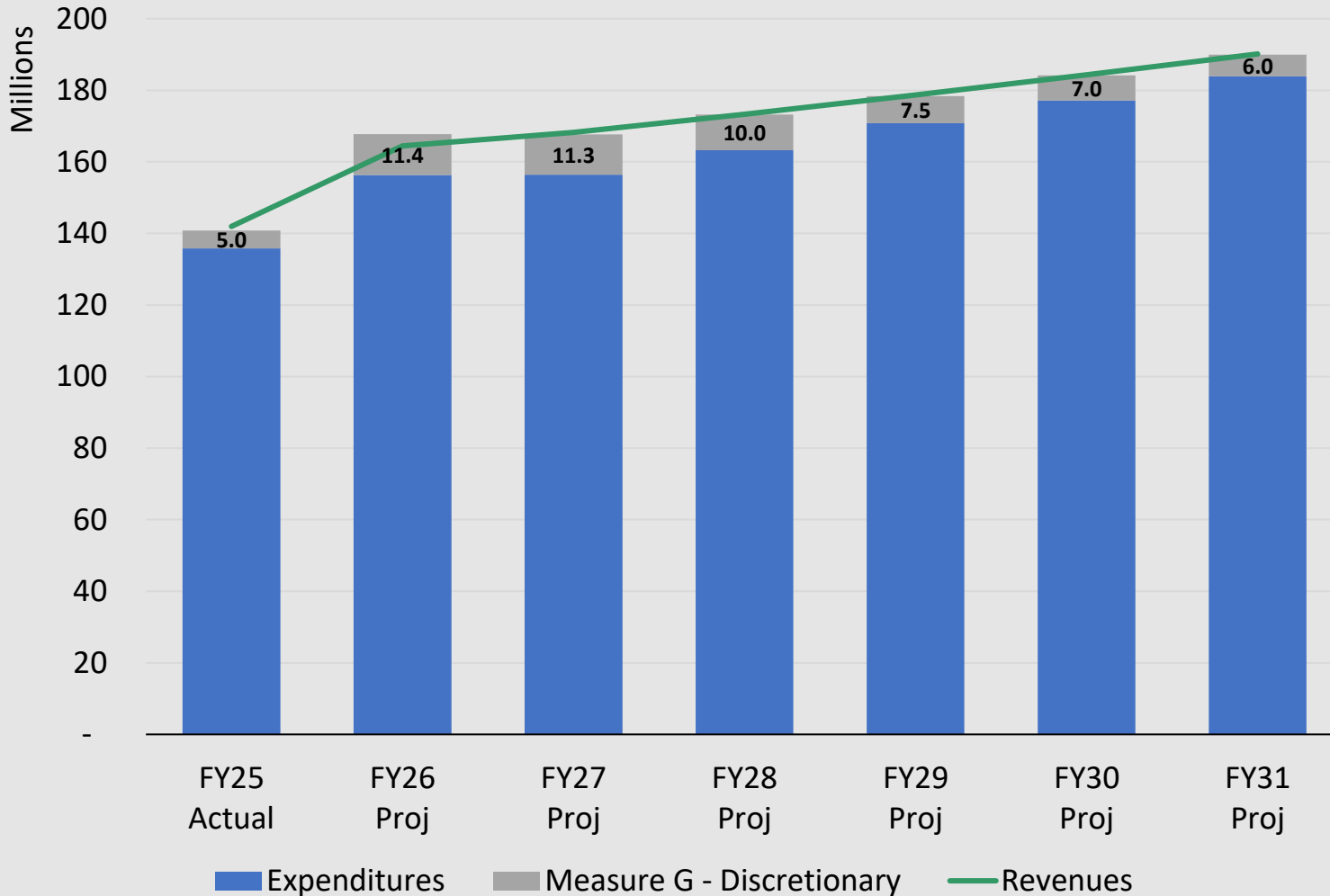
Revenues & Measure G Expenditures



Includes continued use of one-time revenues through FY31



Revenues & Measure G One-time Expenditures



Includes continued use of one-time revenues through FY30



Summary

- LTFF
 - Positive reflection of efforts to identify and manage a former structural deficit
- Measure G
 - Allowing the continuation and enhancement of our core services plus significant investments in our community
- Revenue growth
 - Stabilizing with expenditures rising
- Economic Pressures/Uncertainty
 - UAL, VLF and Federal/State funding
- Ensure long-term fiscal stability
 - Fiscal discipline and prudent planning



What's Next?

- January 20: FY 2024/25 End of Year/ACFR
January 28: Council Workshop
- February/March: Mid-Year Report
 - Revenue and expenditures adjustments as needed
- May/June: Mid-Cycle Budget and Adoption
- Going forward will continue to use the Forecast and Mid-Year Report to evaluate revenue and adjust budgets as needed if growth differs from expectations.



Comments / Questions?



End of Presentation

