



Long-Term Financial Forecast

February 2, 2021



Roadmap

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

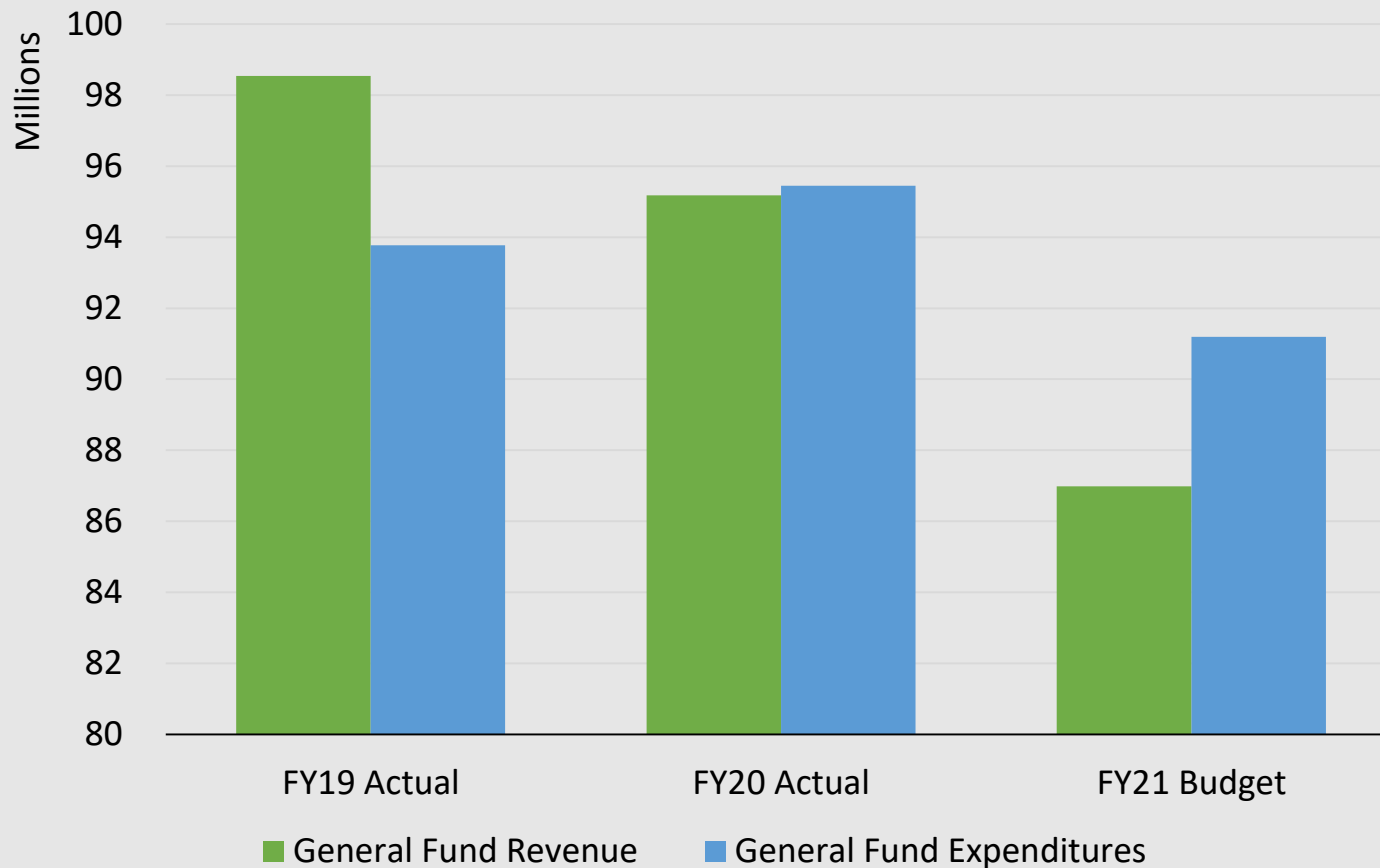


The Big Picture

- Pandemic: initially viewed as short-term event; treated with short-term solutions
- Local economic activity not projected to rebound to “normal” until FY24; causes large revenue shortfalls
- Expenditures (based on historical trends) continue to increase; most are semi-discretionary and difficult to reduce



General Fund Financial Status



FY20 Revenue includes Transfers In from CIP Reserves to balance the General Fund (\$4.6 million in total)



Financial Status: FY 2019/20

- COVID-19 Pandemic reduced Sales Tax and Transient Occupancy Tax receipts
- Sales Tax declined by 12.5% as compared to FY 2018/19
- TOT declined by 26.1% as compared to FY 2018/19



Financial Status

- Transfers In from Capital Improvement Reserves prevented the usage of General Fund Reserves in FY 2019/20
- General Fund Reserve dollars are needed to balance the FY 2020/21 budget
- Ongoing pandemic with slow roll-out of vaccinations creates uncertainty as to when revenue will return to pre-pandemic levels

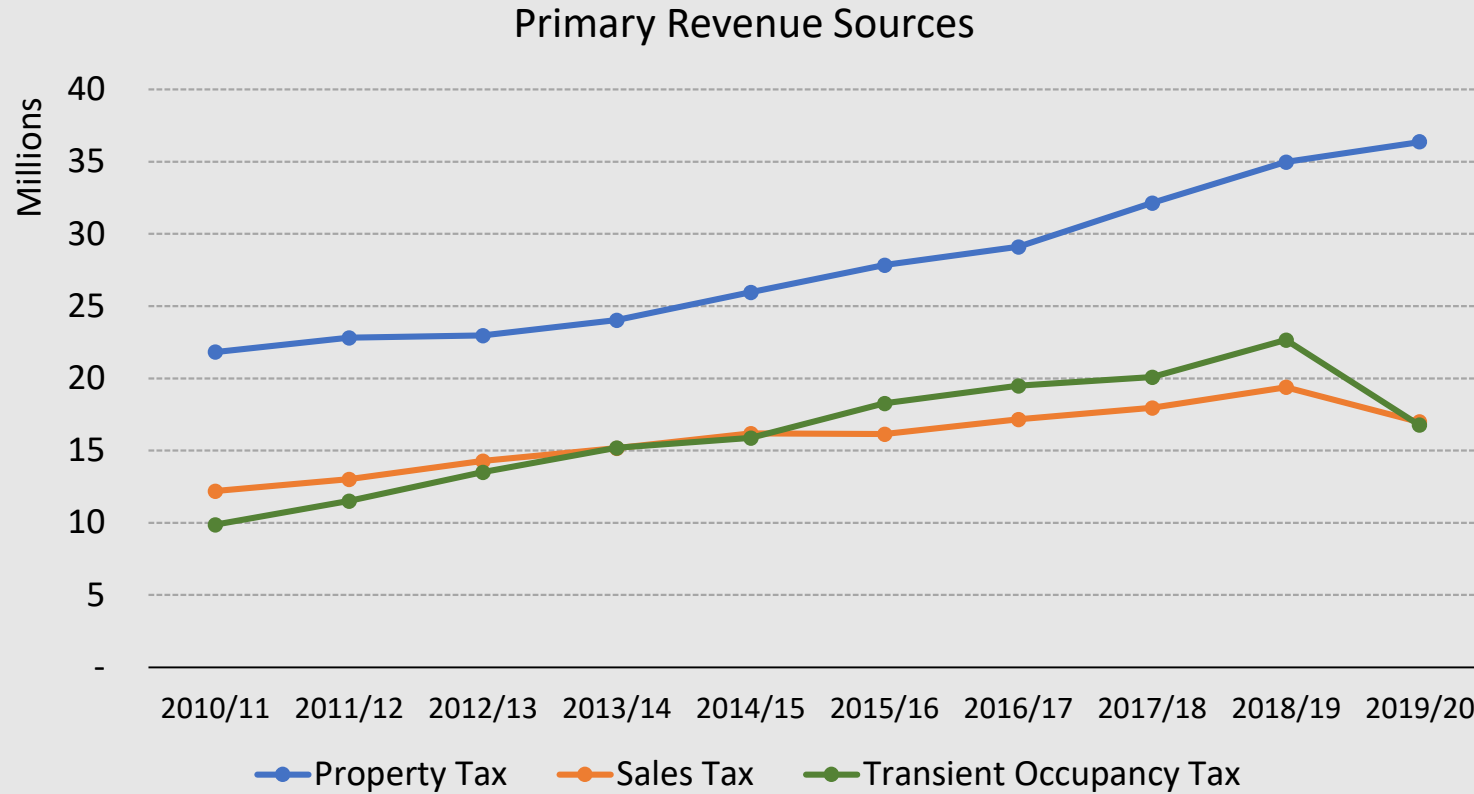


Long-Term Financial Forecast

- Components
 - Financial Trend Analysis – 5 Year History
 - Rapid growth out of last recession can skew analysis of current trends
 - Financial Forecast – 6 Years Forward
 - Economic Assumptions
 - Anticipated Development
 - Three Revenue Scenarios
 - Most Likely, Optimistic, Pessimistic



Historical Revenue Growth



- Property Tax: average annual increase of 5.8% from FY11 – FY20
- Sales Tax: average annual increase of 5.9% from FY11 – FY19; 12.5% YoY decrease in FY20
- TOT: average annual increase of 11.9% from FY11 – FY19; 26.1% YoY decrease in FY20; period shown includes 3 new hotels and 1 hotel expansion



The Forecast....



The Forecast....



The Forecast....

- Is a model that shows us what MIGHT happen in the future
- Revenue estimates based on our current best guesses at the economic recovery timeline
- Expenditure estimates based on historical growth rates → what happens if we keep doing what we've been doing



What is 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
- 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
- GFOA best practice



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
 - New Positions
 - Funding for Current Unfunded Needs
 - New or Enhanced Programs / Services



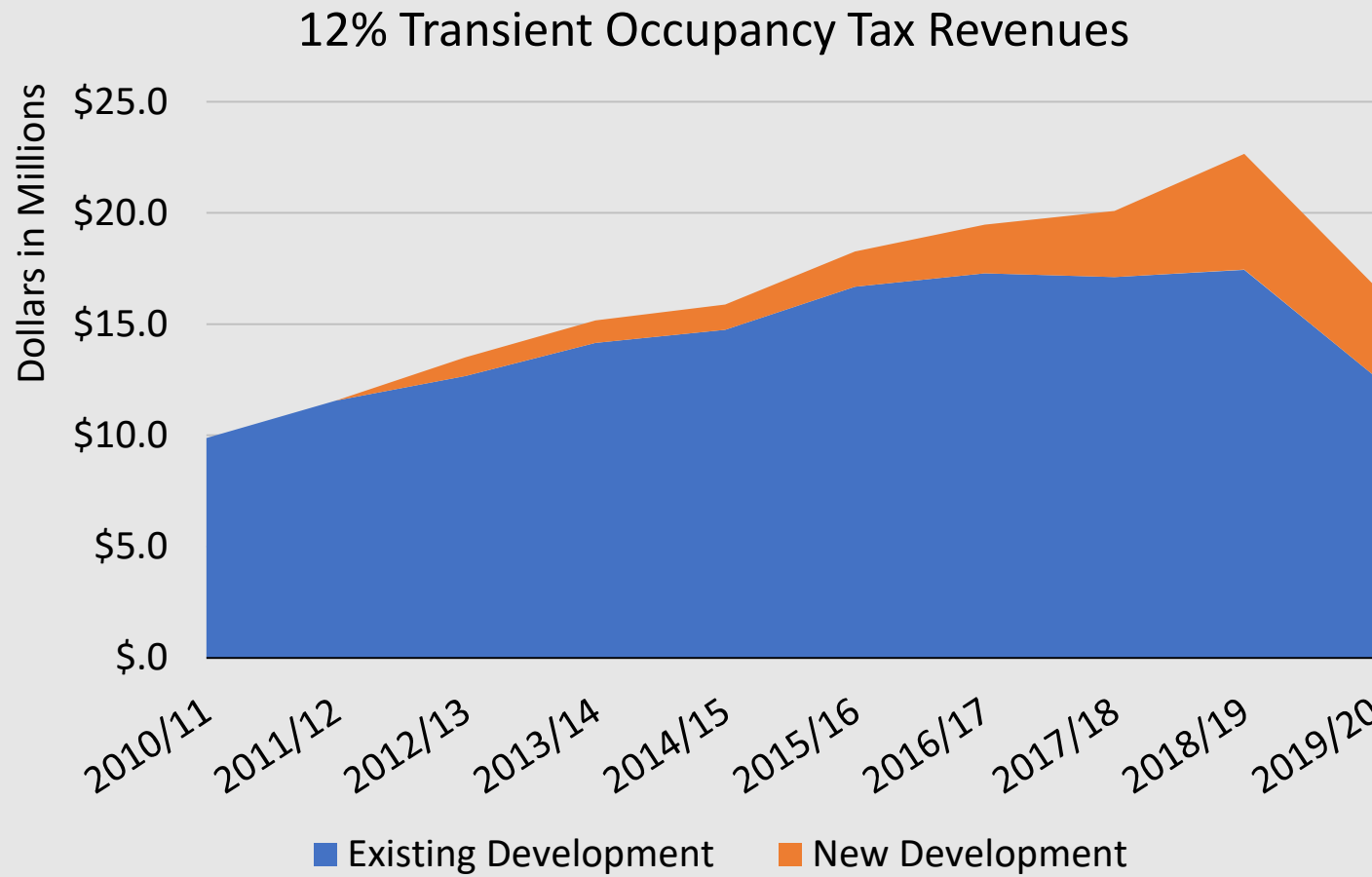
Forecast Assumptions

Annual Revenue Growth Rates

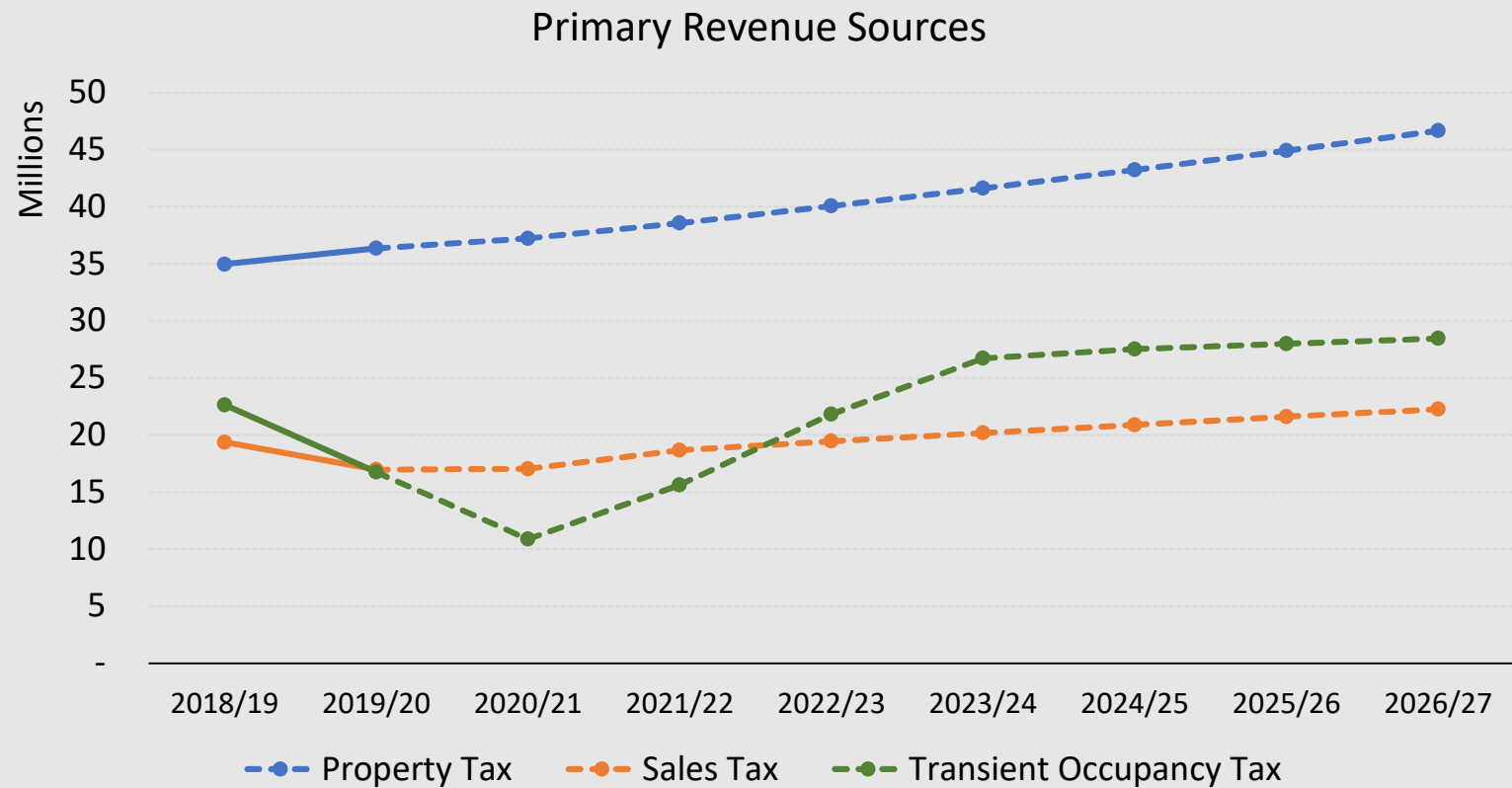
- Property Tax: 4.0% throughout forecast
- Assume tourism resumes FY19 activity levels in FY24
- Sales Tax: 4.6% average
 - 5.8% average FY22 – FY24
 - 3.3% average FY24 – FY27
- Transient Occupancy Tax
 - 14.5% average (existing development)
 - 29.1% average FY22 – FY24
 - 1.5% average FY24 – FY27
 - Estimated projected new development



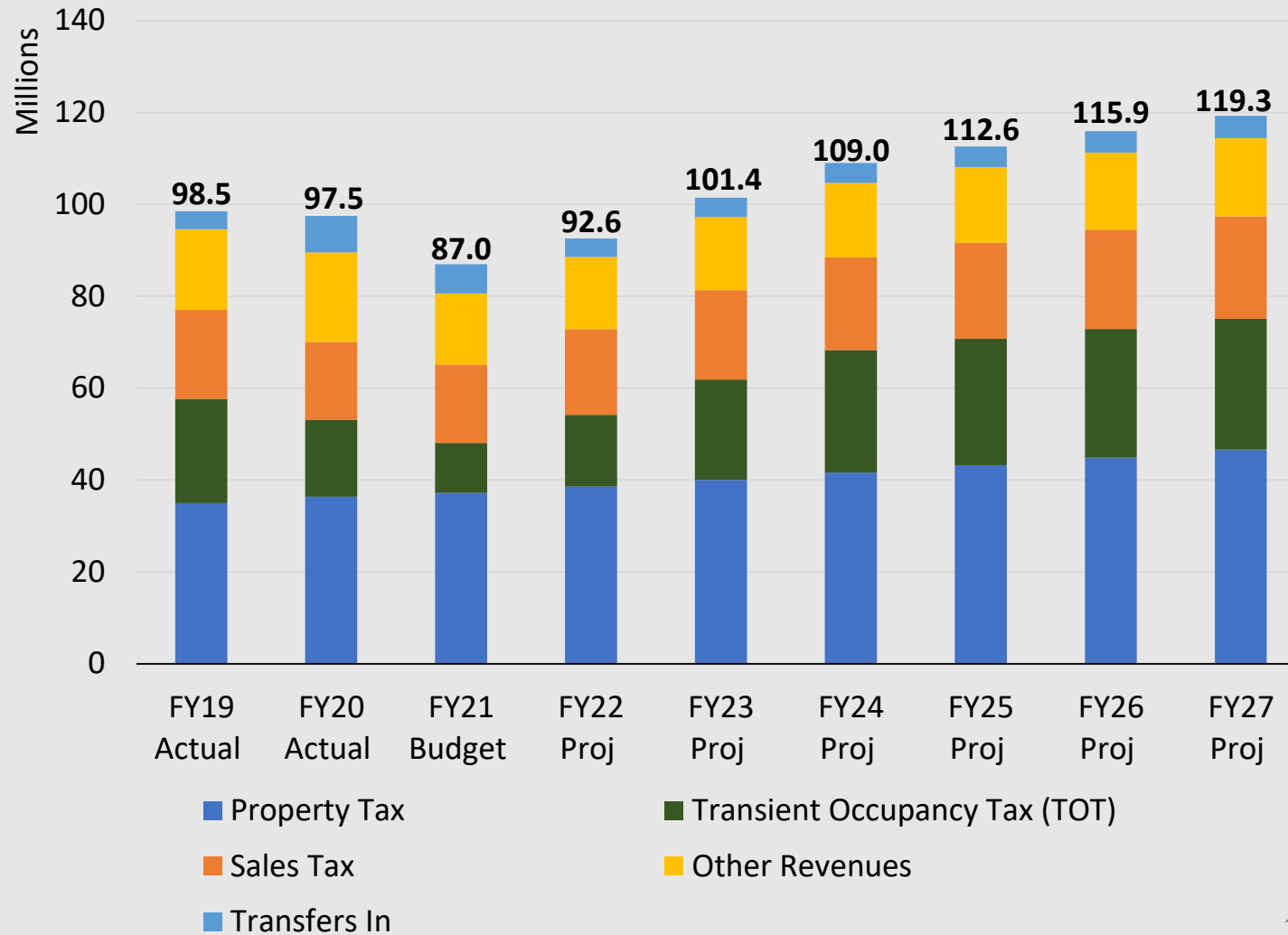
TOT Revenue Flattening



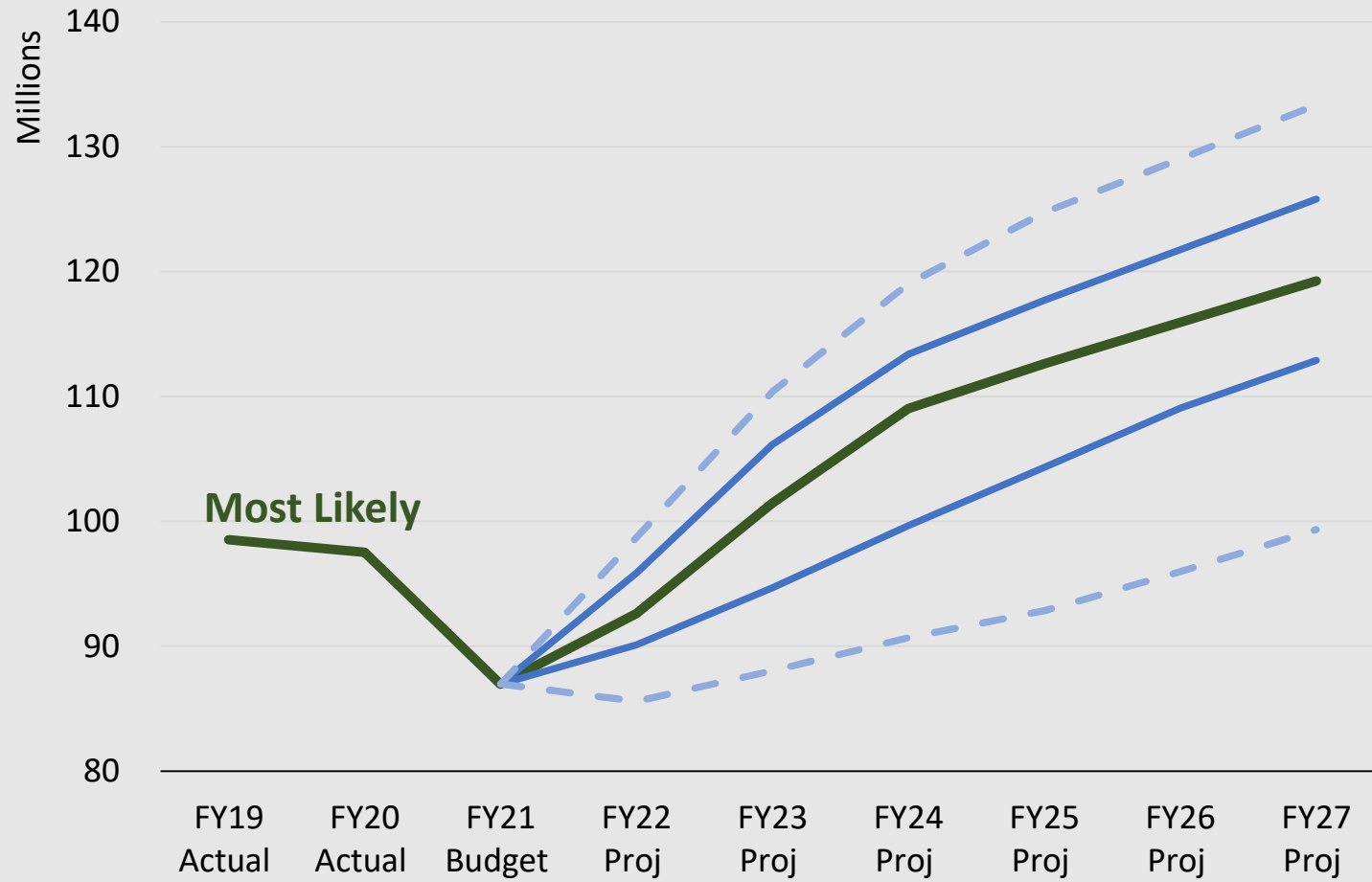
Property, Sales & TOT Revenue Most Likely Scenario



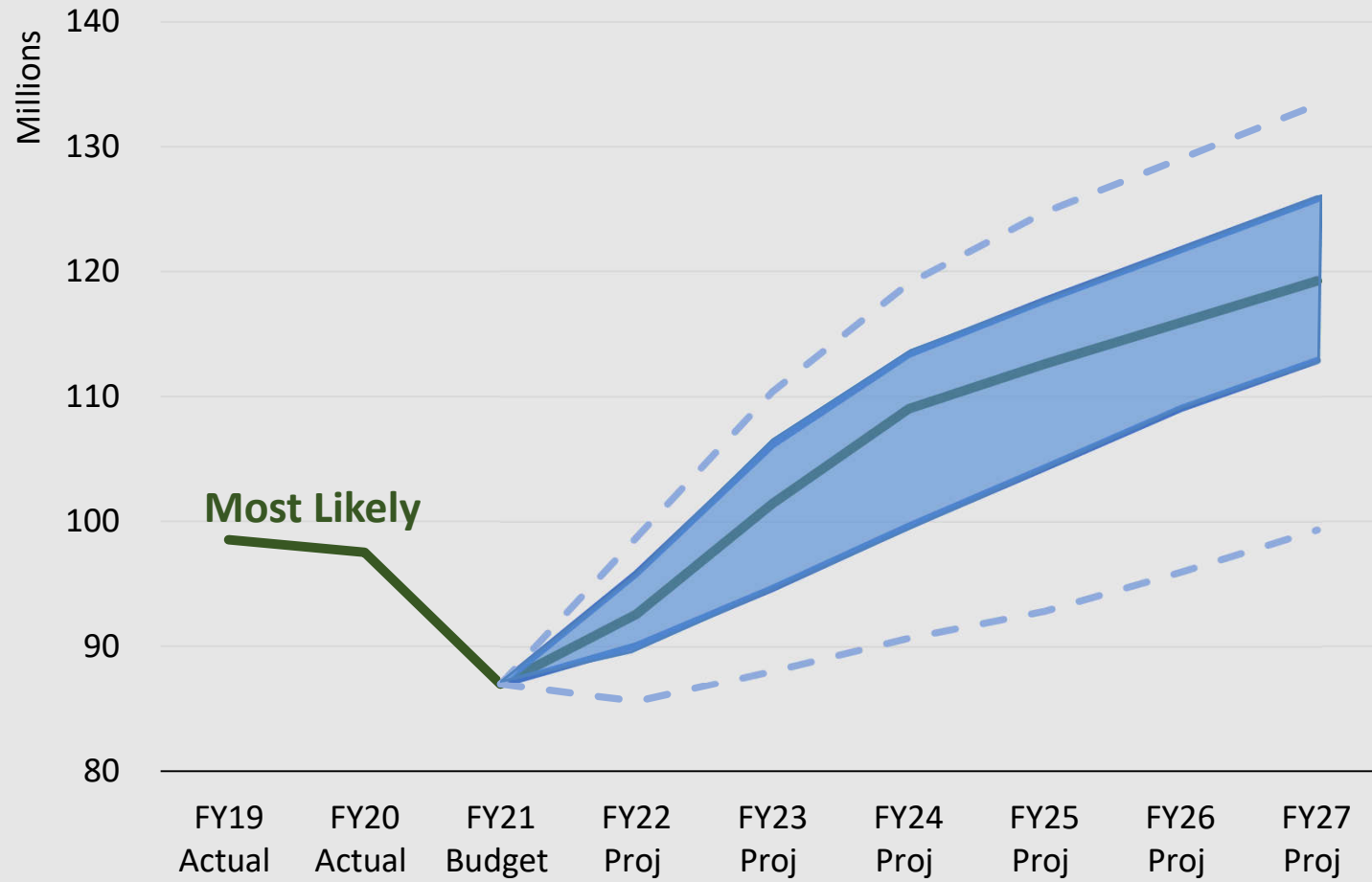
Most Likely Revenue Forecast



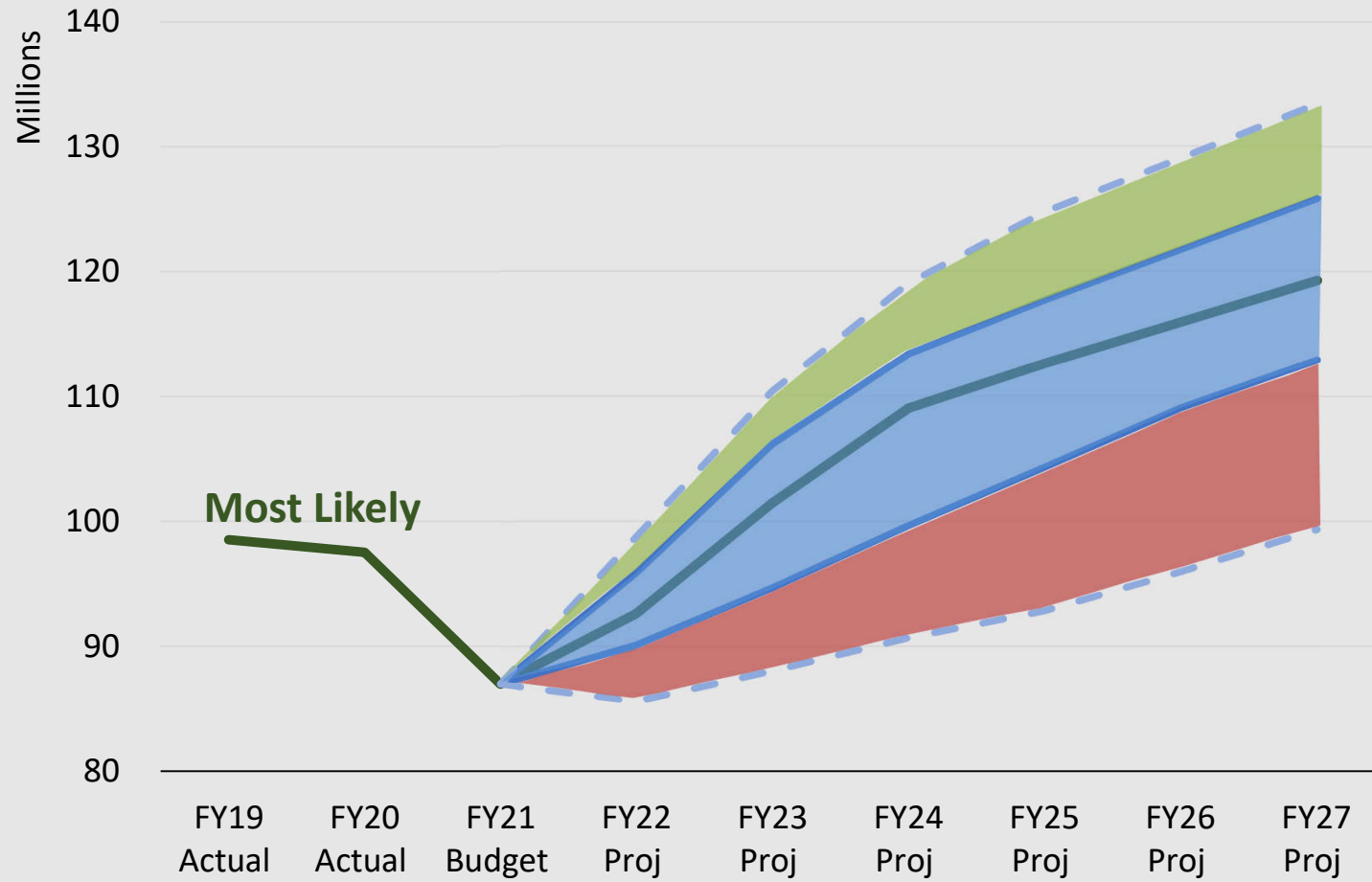
Revenue Uncertainty



Revenue Uncertainty



Revenue Uncertainty



Forecast Assumptions

Annual Expenditure Growth Rates

- Based on historical trends, core City services
- Staffing: No new positions
- Frozen Positions: Council-approved positions removed from FY21 budget
- Salaries & Wages: 3.5% combined rate for COLA and step increases, based on current ratio of employees at top step and 10-year average Bay Area CPI



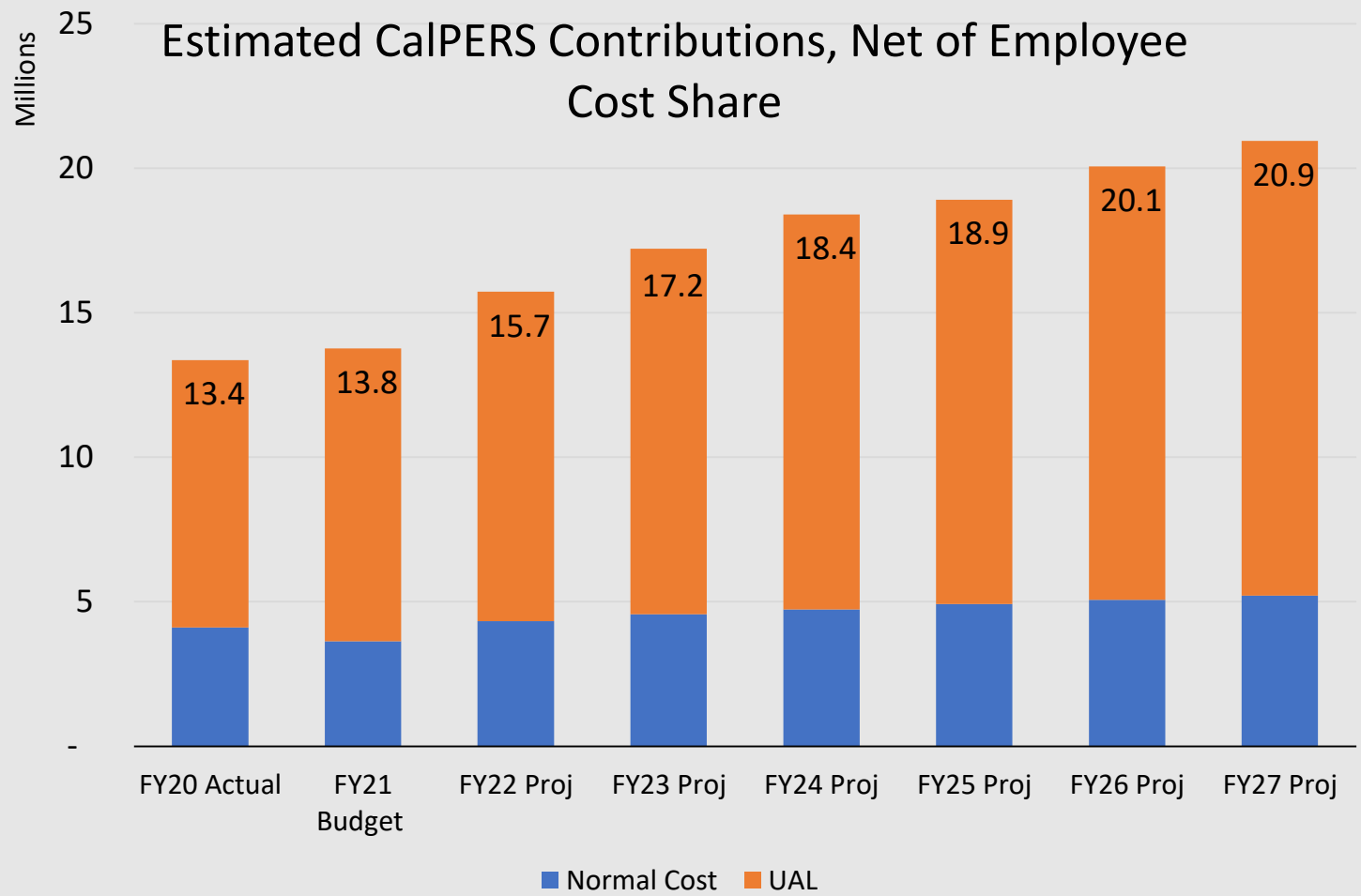
Forecast Assumptions

Annual Expenditure Growth Rates

- Benefit Costs Increasing
- 3.5% annual increase in healthcare/dental costs
- 6.2% average annual increase in CalPERS costs
- 7.6% average annual increase in CalPERS UAL payments



CalPERS City Costs



Forecast Assumptions

Annual Expenditure Growth Rates

– Semi-Discretionary

- Services & Supplies: 12.9%
 - Utilities, Property Tax Administration Fees, Software Licenses, Payments to Other Agencies, etc.

- Internal Services: 4.9%

• Discretionary

- Services & Supplies: 0.8%
 - Professional Services, General Supplies, Travel/Training, etc.
- Transfer to Sidewalks Program: \$0.9 million/year



Forecast Assumptions

Annual Expenditure Growth Rates

- Transfers Out per Fiscal Policy
 - CIP Facilities Reserve: 2% of Operating Budget
 - CIP General Fund Reserve: 1% of Operating Budget, plus \$0.10 million for the General Plan
 - Equipment Replacement Reserve: \$0.15 million/year



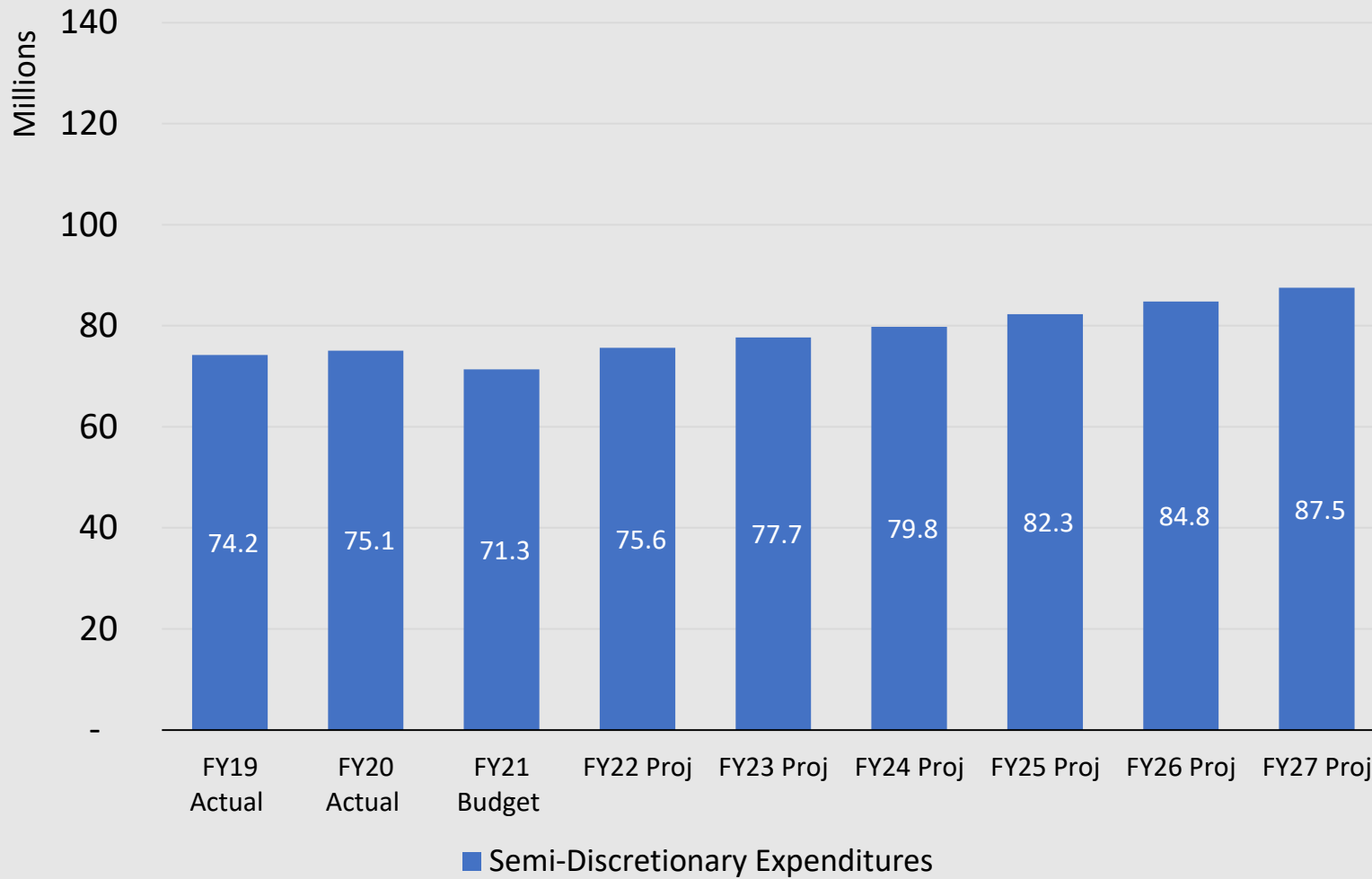
Expenditure Forecast Chart

Semi-Discretionary vs Discretionary

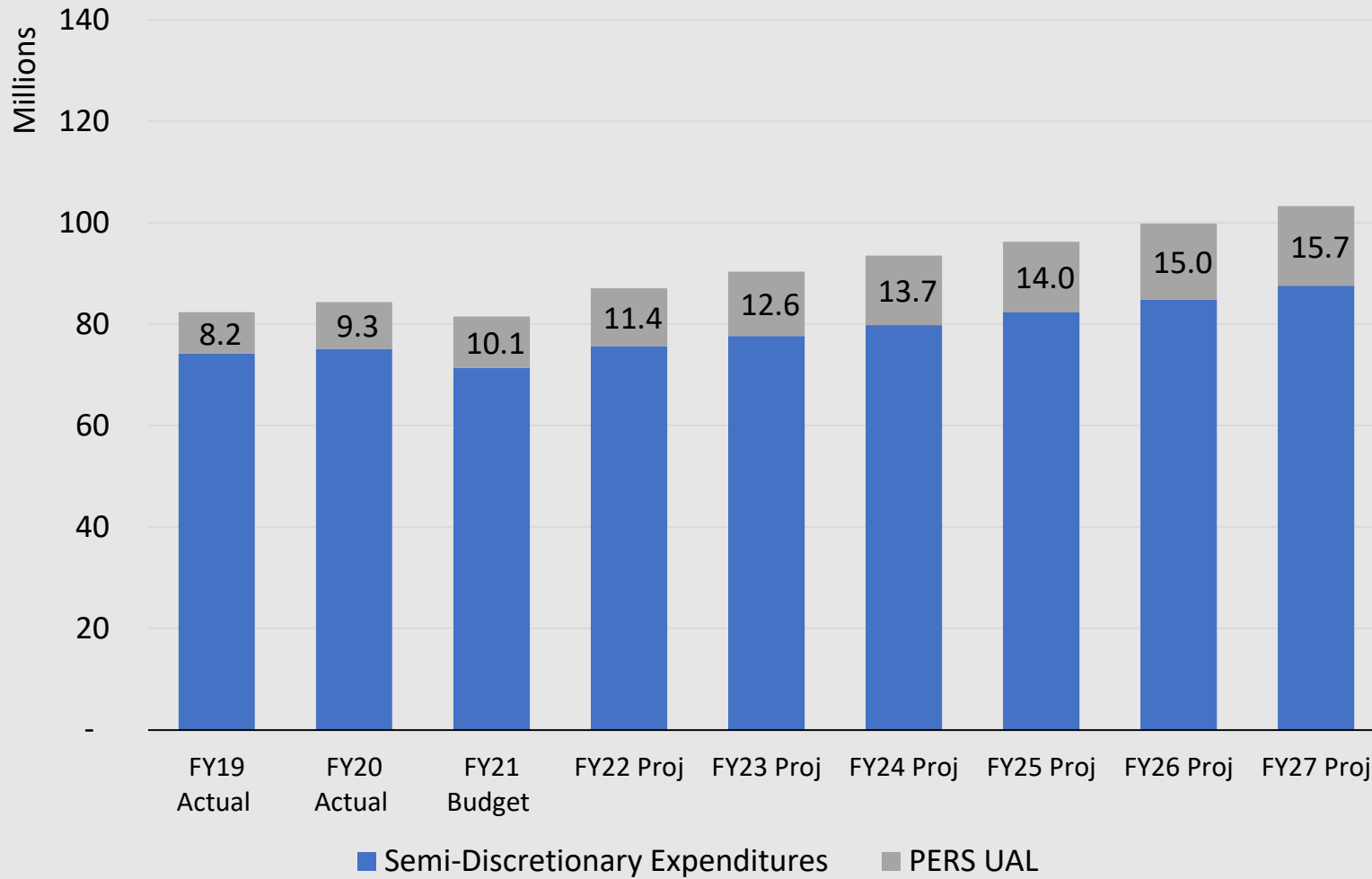
- Semi-Discretionary Operating Expenses
 - Salaries/Benefits with Step Increases Only
 - Semi-Discretionary Services and Supplies
 - Internal Services (Fleet, IT Replacement, Risk, etc.)
 - Transfers Out for Equipment Replacement and General Plan Reserve
- Discretionary Operating Expenses
 - Services and Supplies
 - Capital Outlay
 - Transfer to Sidewalks Program



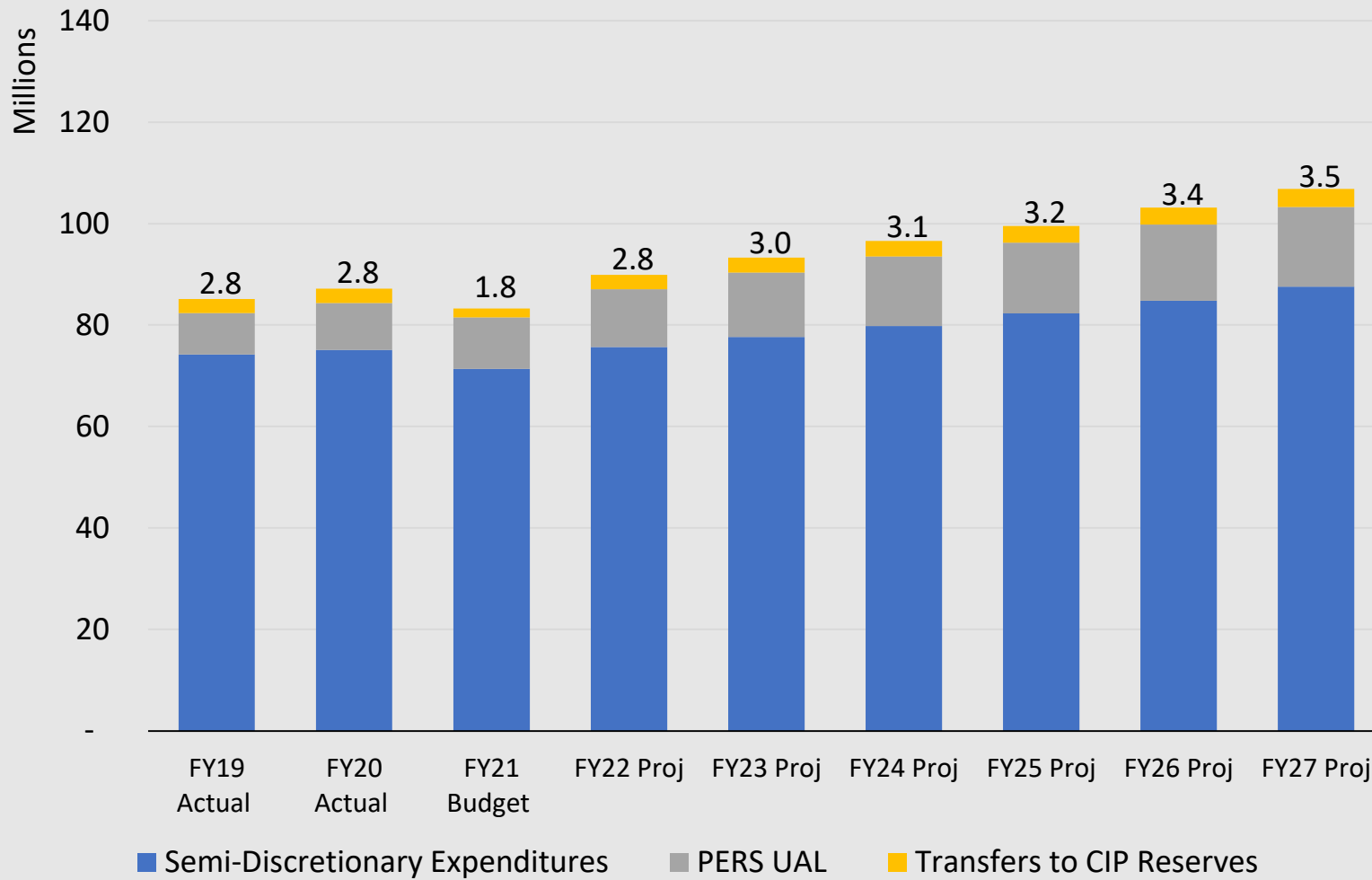
Expenditure Forecast



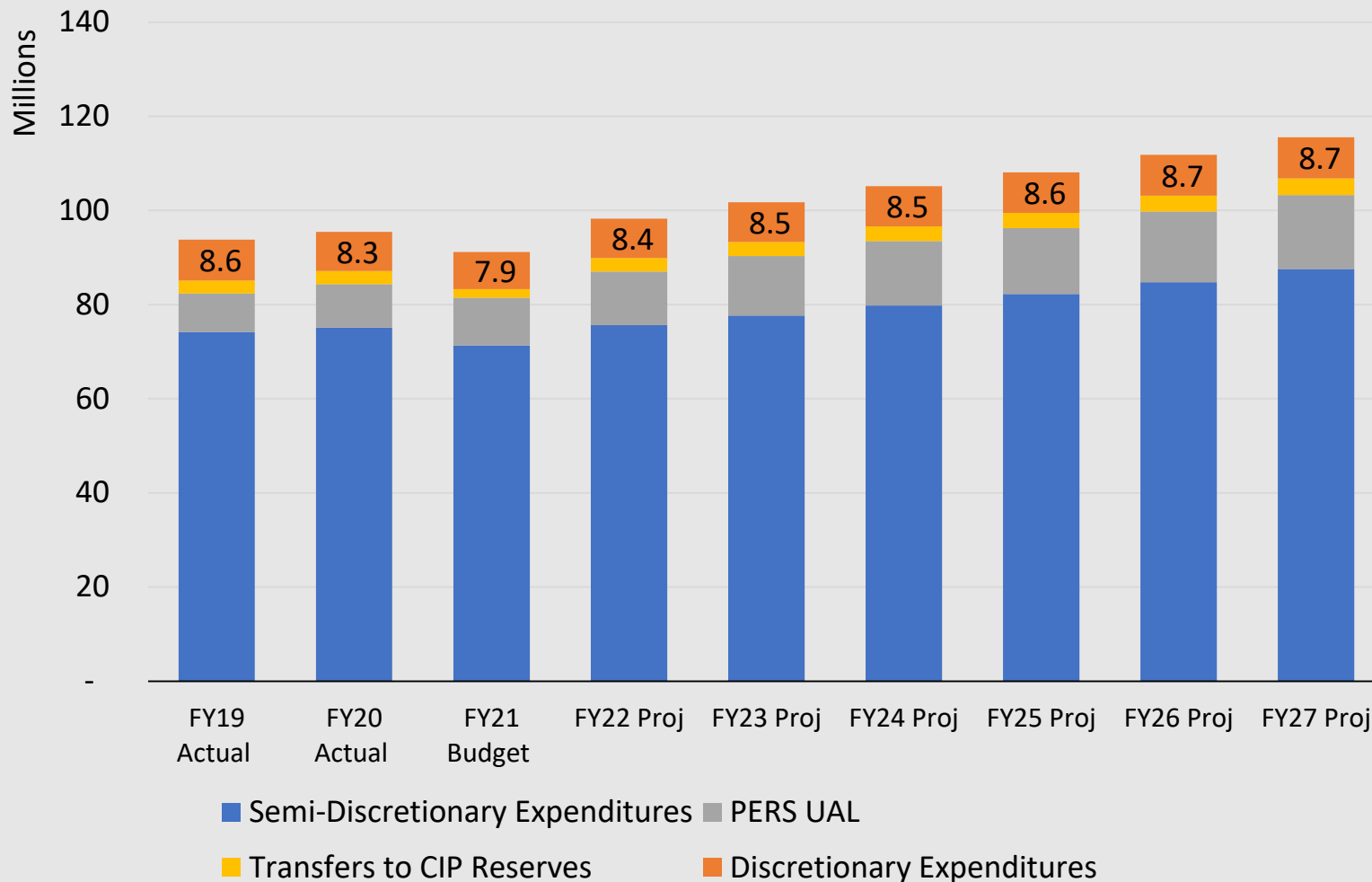
Expenditure Forecast



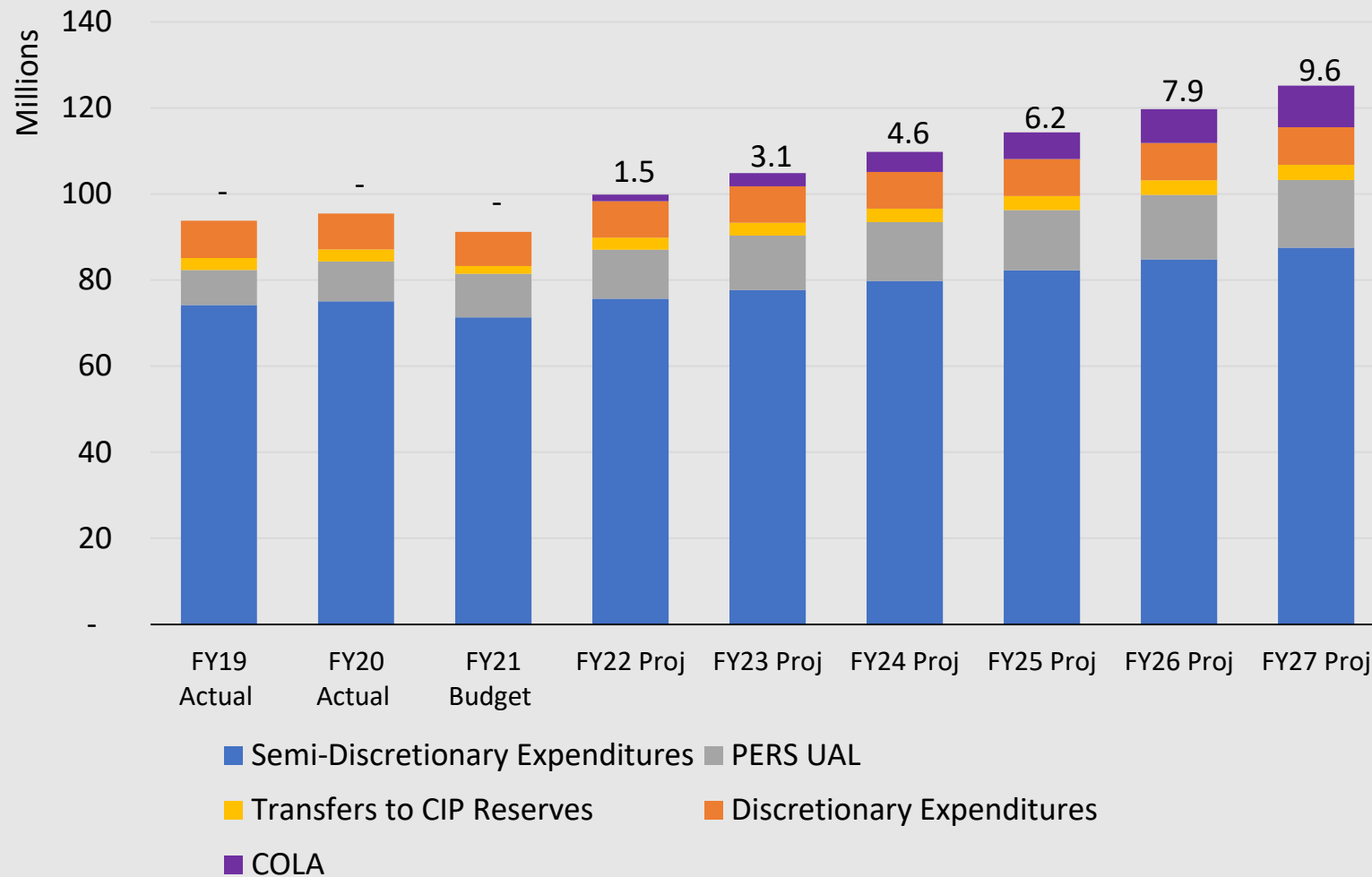
Expenditure Forecast



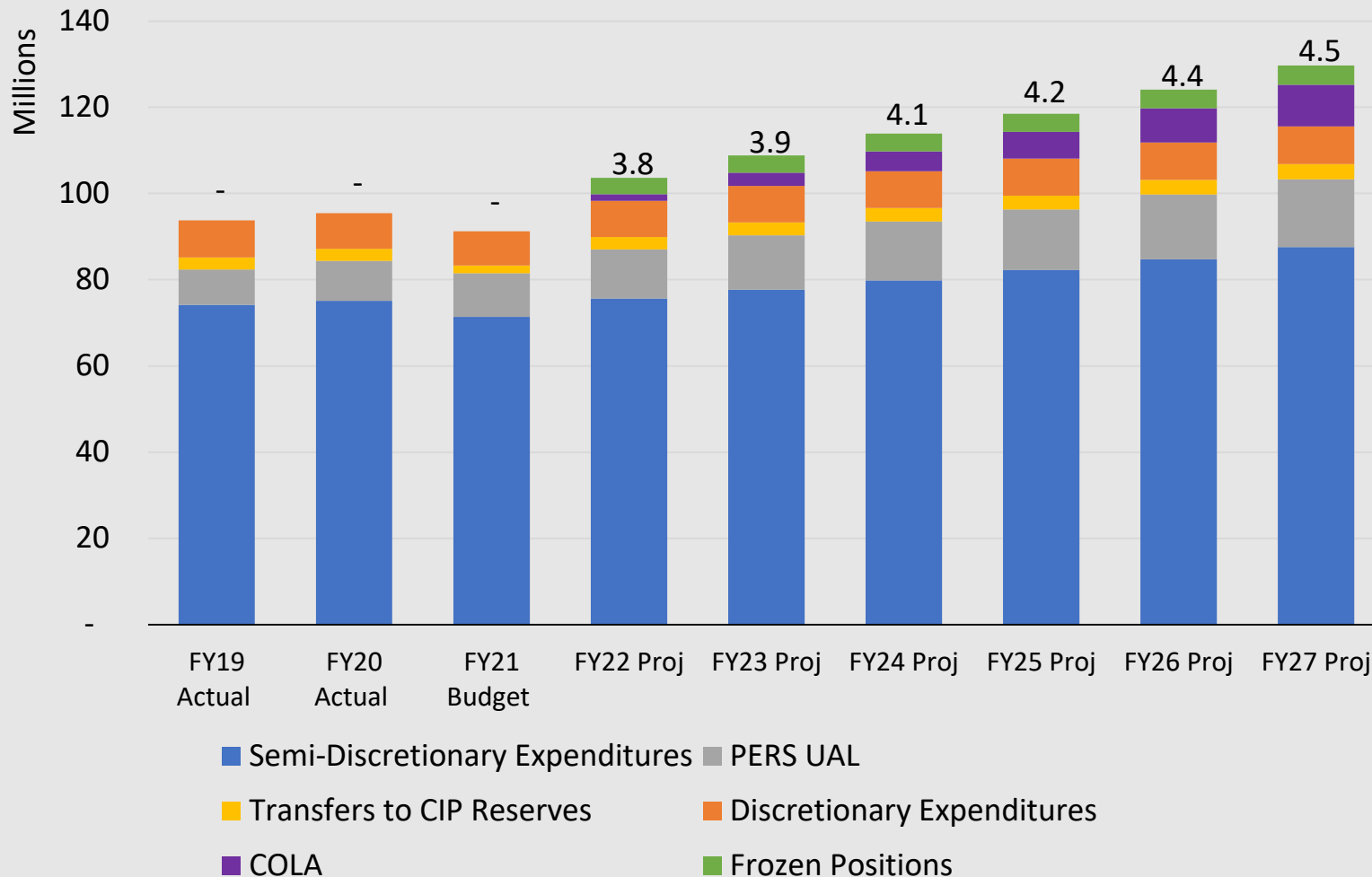
Expenditure Forecast



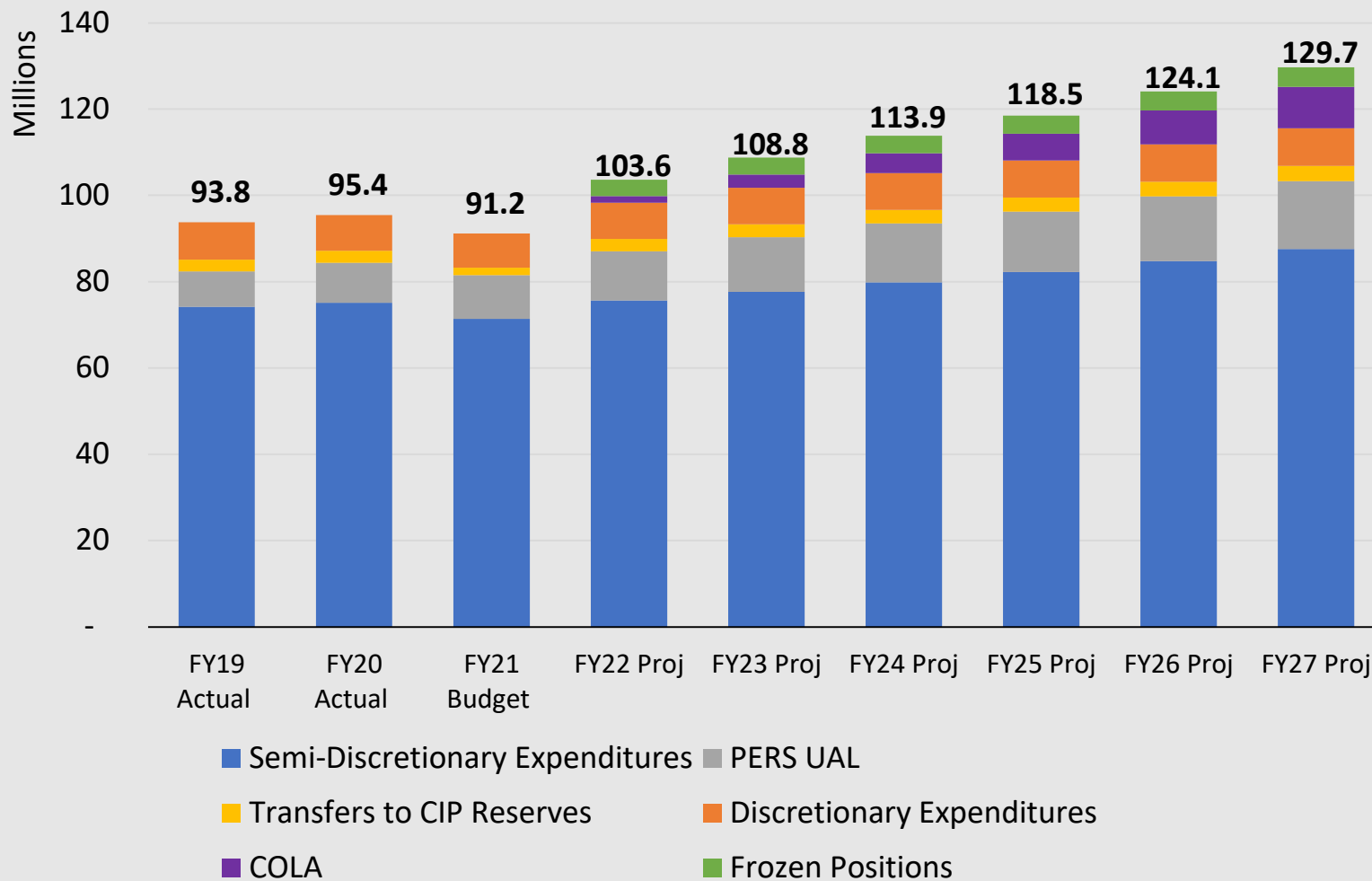
Expenditure Forecast



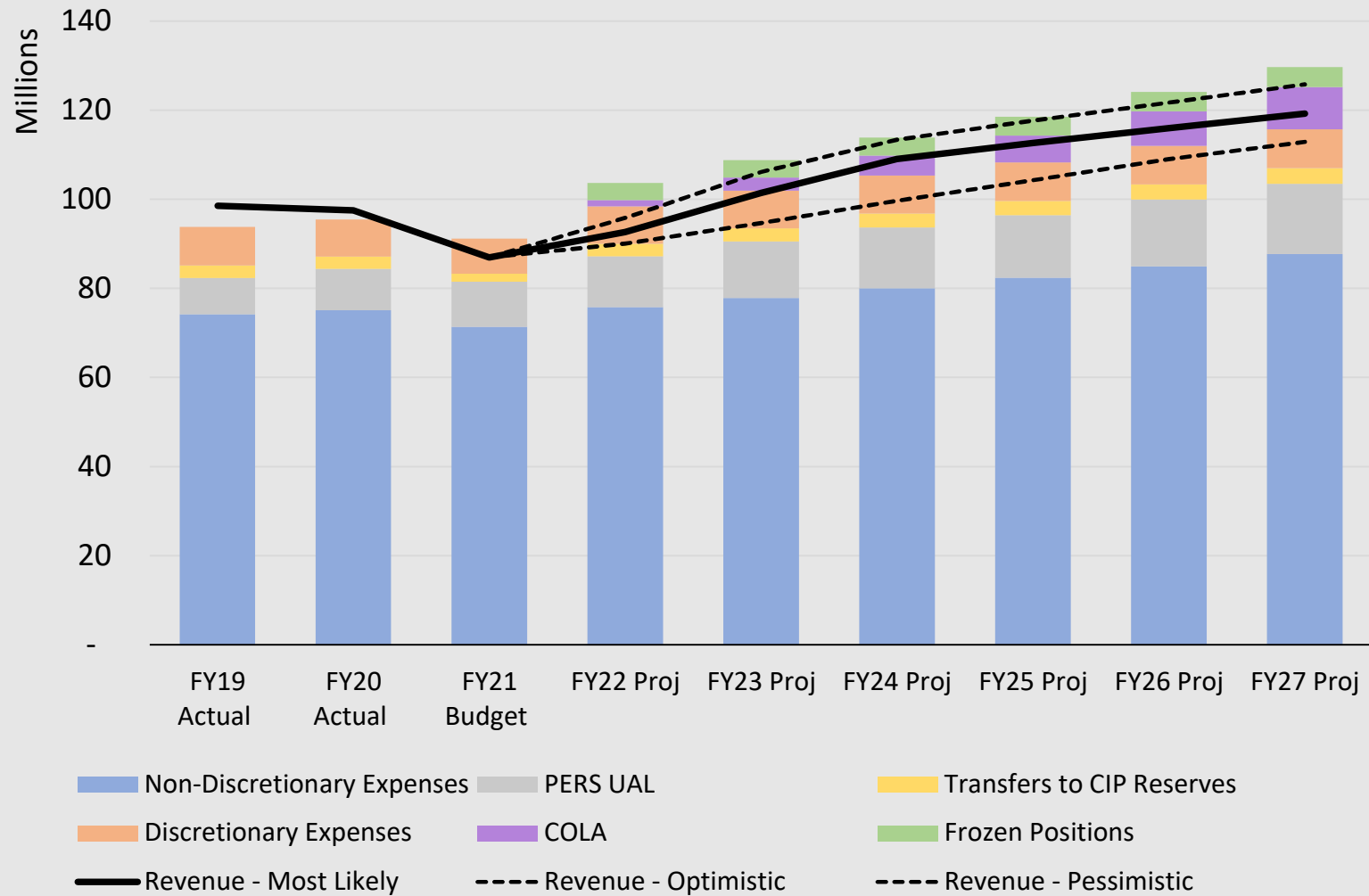
Expenditure Forecast



Expenditure Forecast

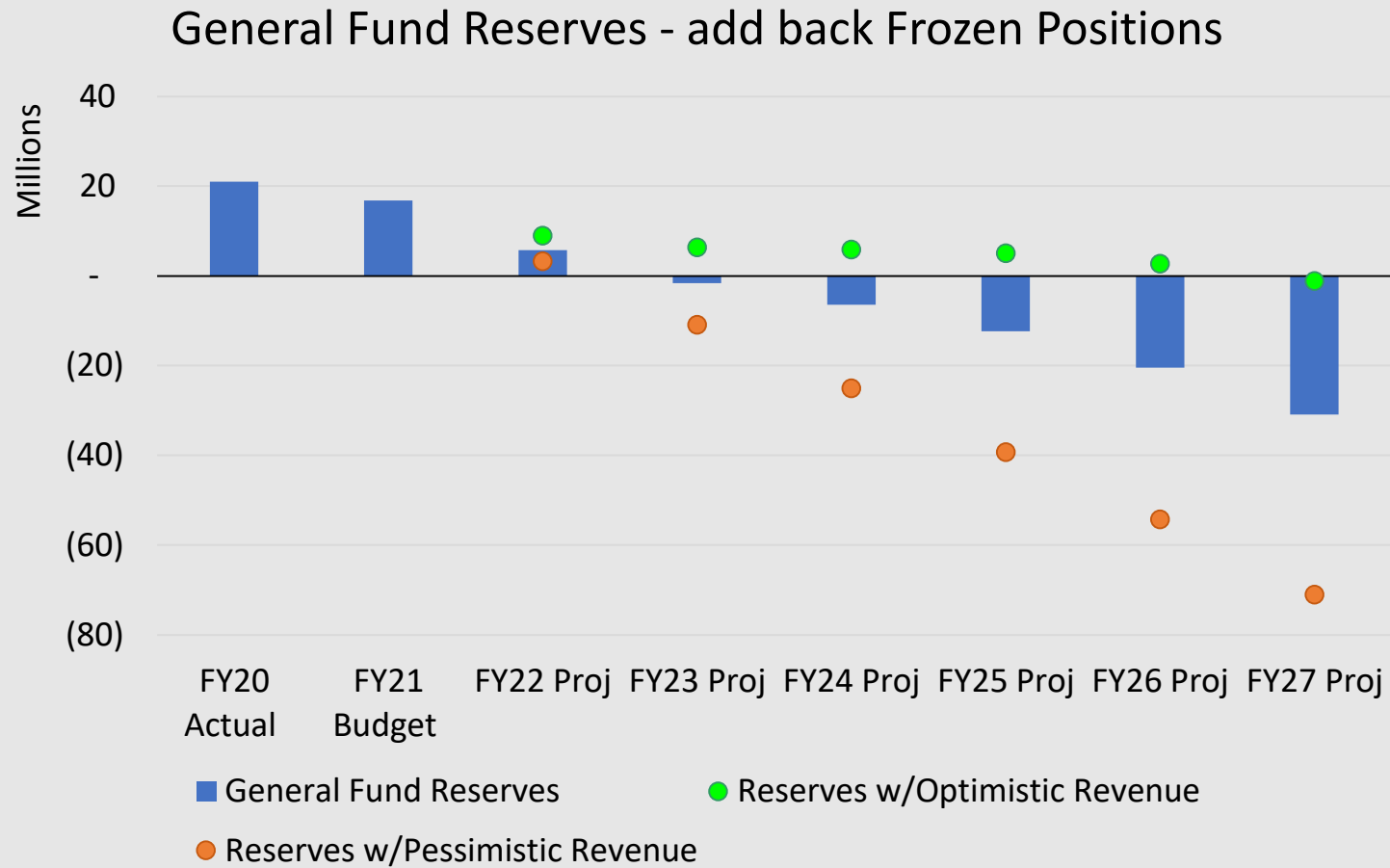


Revenue & Expenditures



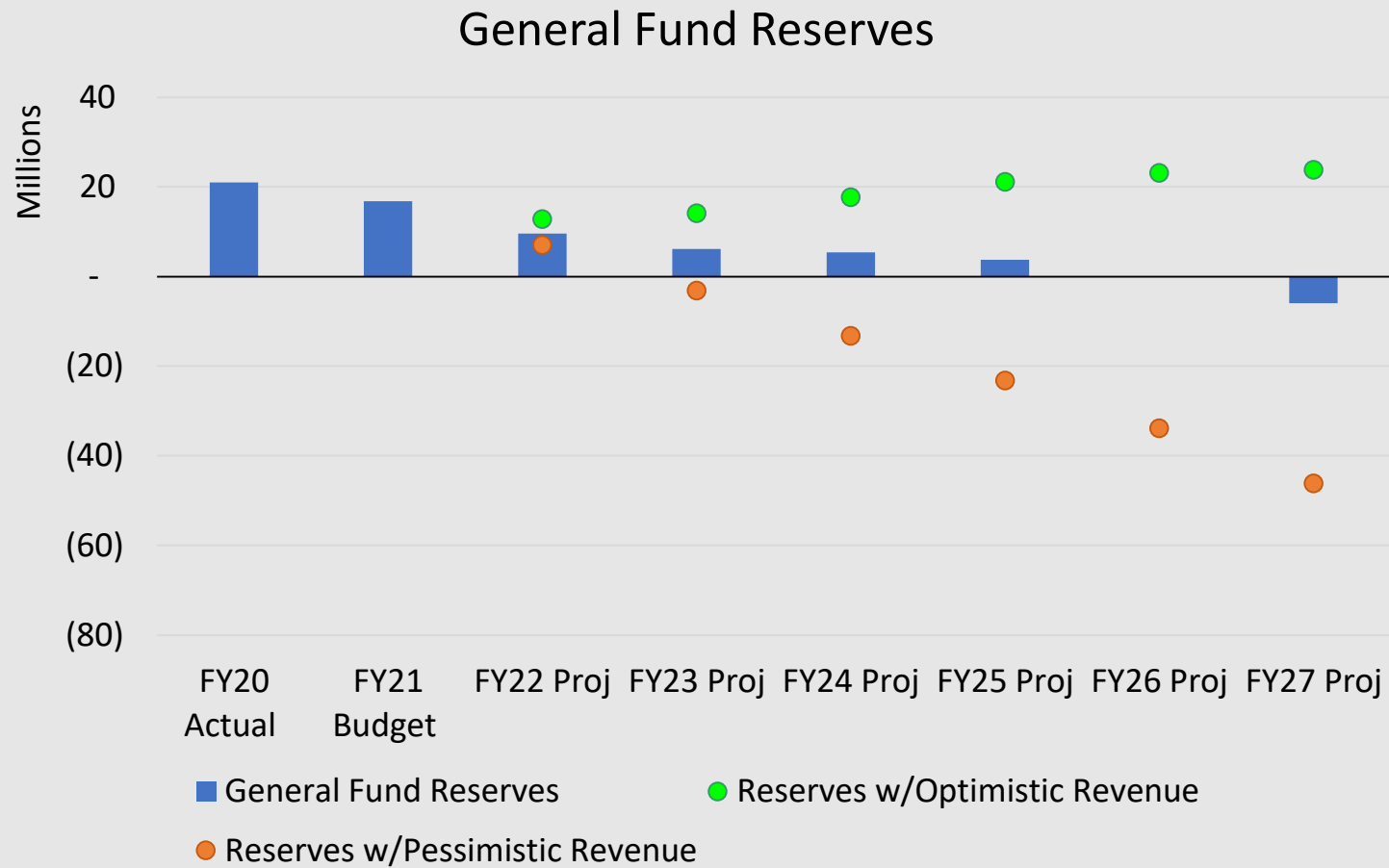
Usage of General Fund Reserves

(includes currently frozen positions)



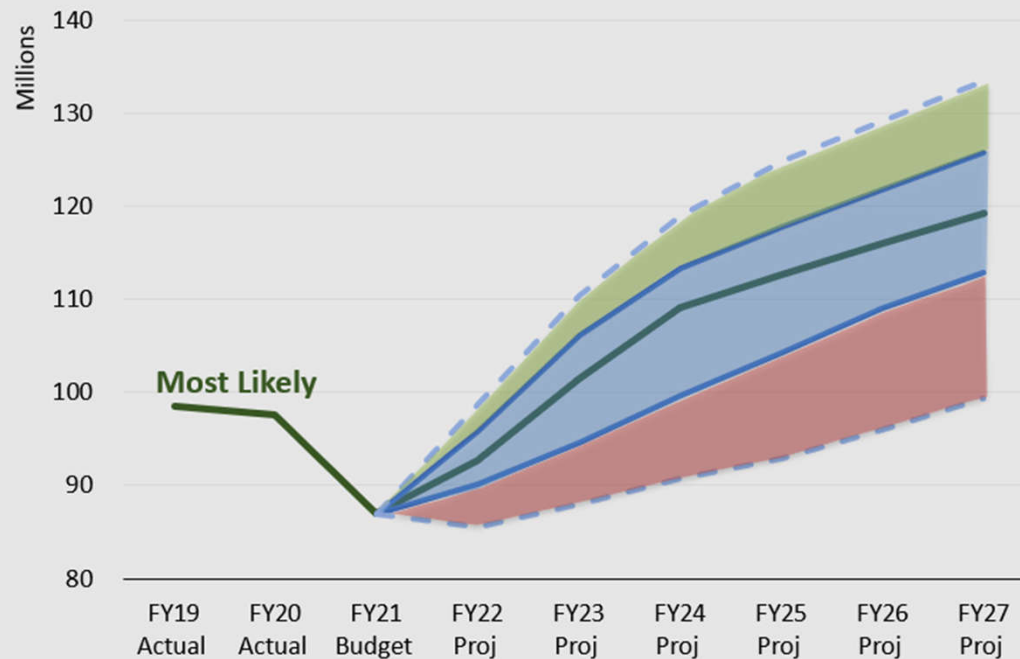
Usage of General Fund Reserves

(equivalent level of frozen positions maintained)



Summary

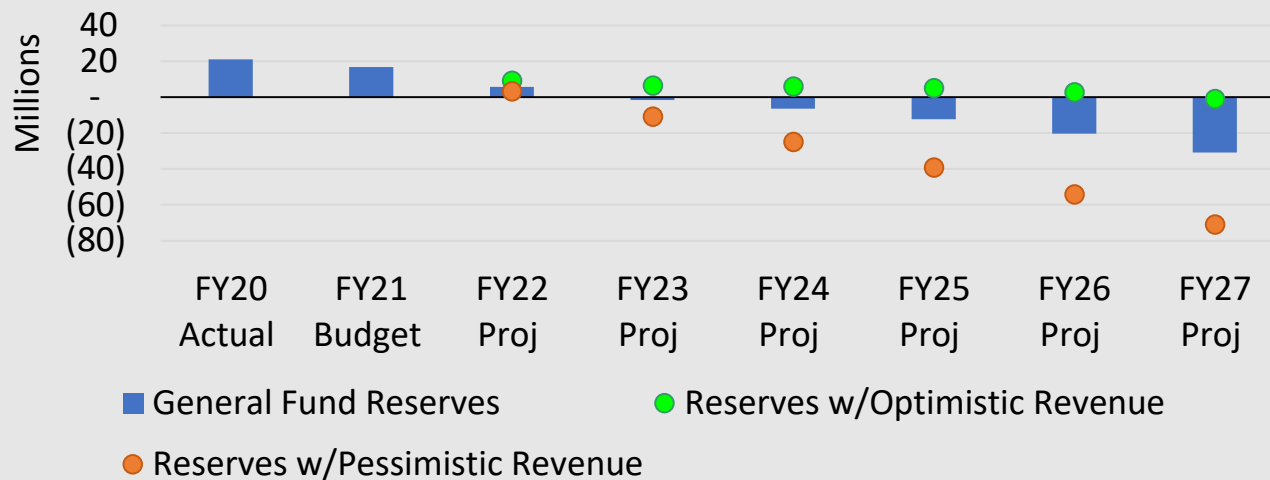
- Revenues are down, and will take years to recover
- High level of uncertainty, but more likely to be under forecast than over



Summary

- If expenditures are allowed to grow at historic levels, the City will face annual deficits
- Reserves are not sufficient to cover projected deficits

General Fund Reserves - add back Frozen Positions



What's Next?

- City Council will be asked to set budget priorities at their workshop
- City Staff will then compile recommendations based on Council priorities for a conservative FY 2021/22 budget
- For FY21, revenues will be closely monitored so that positions/programs can be added back when appropriate
- Departments will tightly manage their FY21 budgets to not further stress reserves



Comments / Questions?



End of Presentation

