ATTACHMENT 1

Long-Term Financial Forecast

January 21, 2025

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Roadmap

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

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The Big Picture

- Revenue growth rates beginning to plateau
- Expenditures have continued to increase and are projected to be higher than revenues in future years
  - Inflation (Services & Supplies)
  - Labor & Pension Costs
  - Self-Funded Insurances

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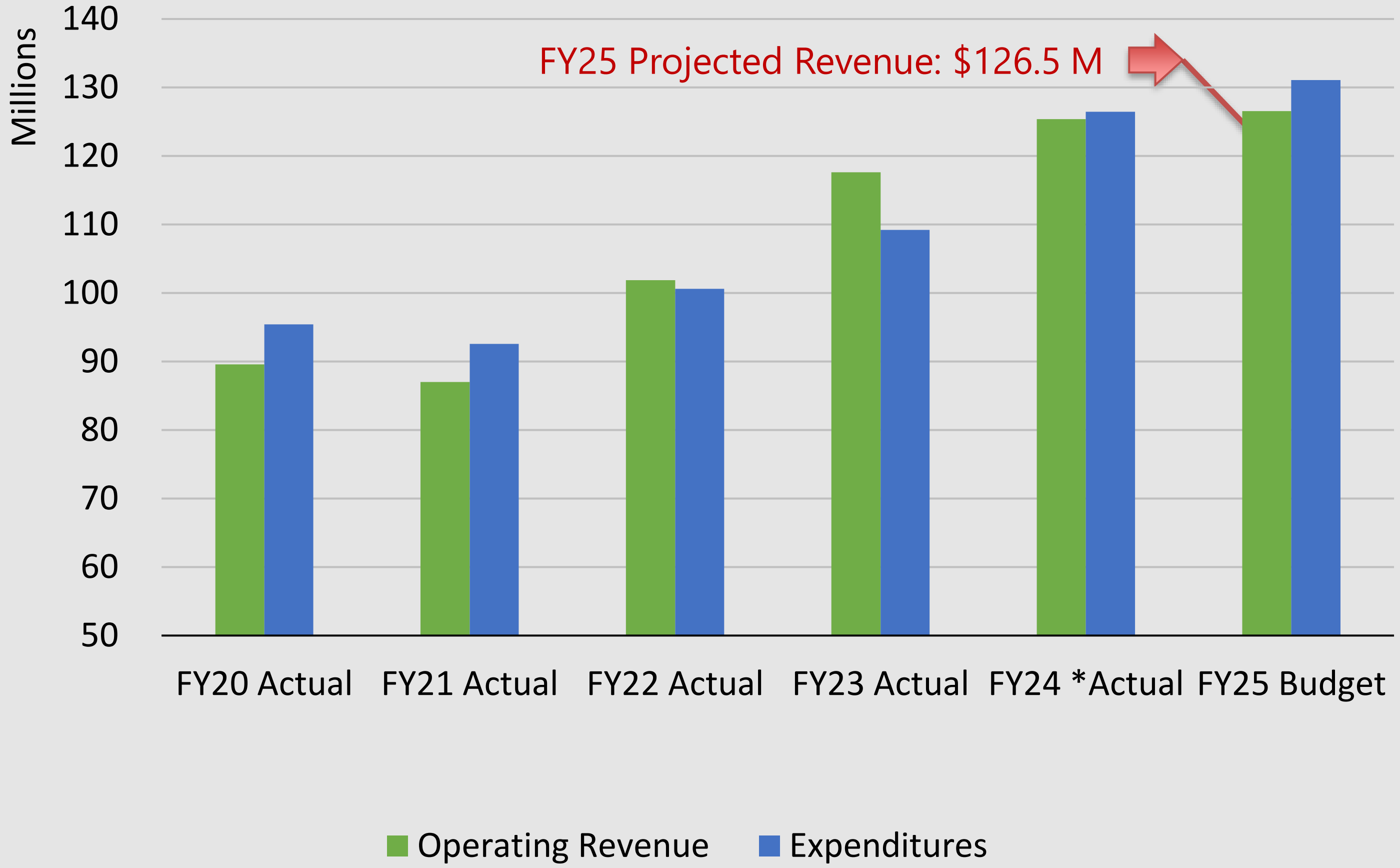
General Fund Financial Status



Operating Revenue only shown; does not include one-time revenues used to balance the General Fund in FY20 through FY25

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Financial Status Update FY 2023/24

- Property and Sales Tax continues to grow at a more moderate rate
- Transient Occupancy Tax slight decline
- Inflation still a factor & labor costs continue to rise
- One-Time dollars have been used since FY20 to balance the General Fund budget
- General Fund Reserves are still fully funded

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Long-Term Financial Forecast

- Components
  - Financial Trend Analysis – 5 Year (4 history + current)
    - 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

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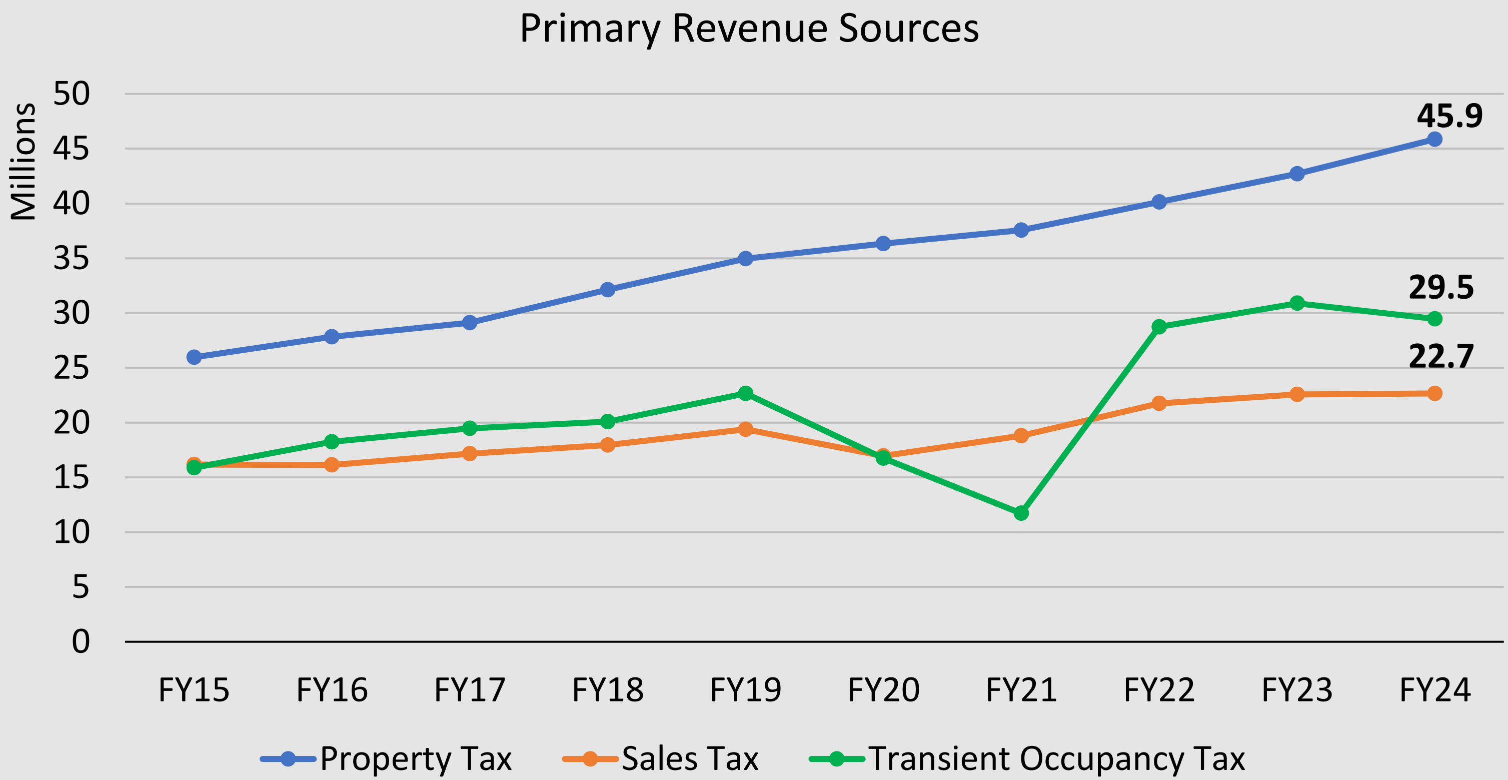
Historical Revenue



- Property Tax: average annual increase of 6.5% from FY15 – FY24
- Sales Tax: average annual increase of 3.8% from FY15 – FY24
- TOT: average annual increase of 7.1% from FY15 – FY24
  - Timeframe includes 4 new hotels and 1 hotel expansion

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The Forecast….

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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 – UAL

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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

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The Forecast….

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

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Forecast….

- What's Included
  - Economic Assumptions
  - Major Development Currently Underway plus Anticipated Growth
  - Transfers Based on Current Fiscal Policy
- What's Not Included
  - ARPA Funding
  - New Positions
  - Funding for Current Unfunded Needs
  - New or Enhanced Programs/Services

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Forecast Assumptions

Annual Revenue Growth Rates

- Property Tax: 4.0% throughout forecast
- Sales Tax: 3.5% average annual growth
- Transient Occupancy Tax
  - From 2.5% average annual growth for existing inventory to 1% in FY26 & 2% beyond
  - FY24 Actual less than FY23
  - Estimated projected new development

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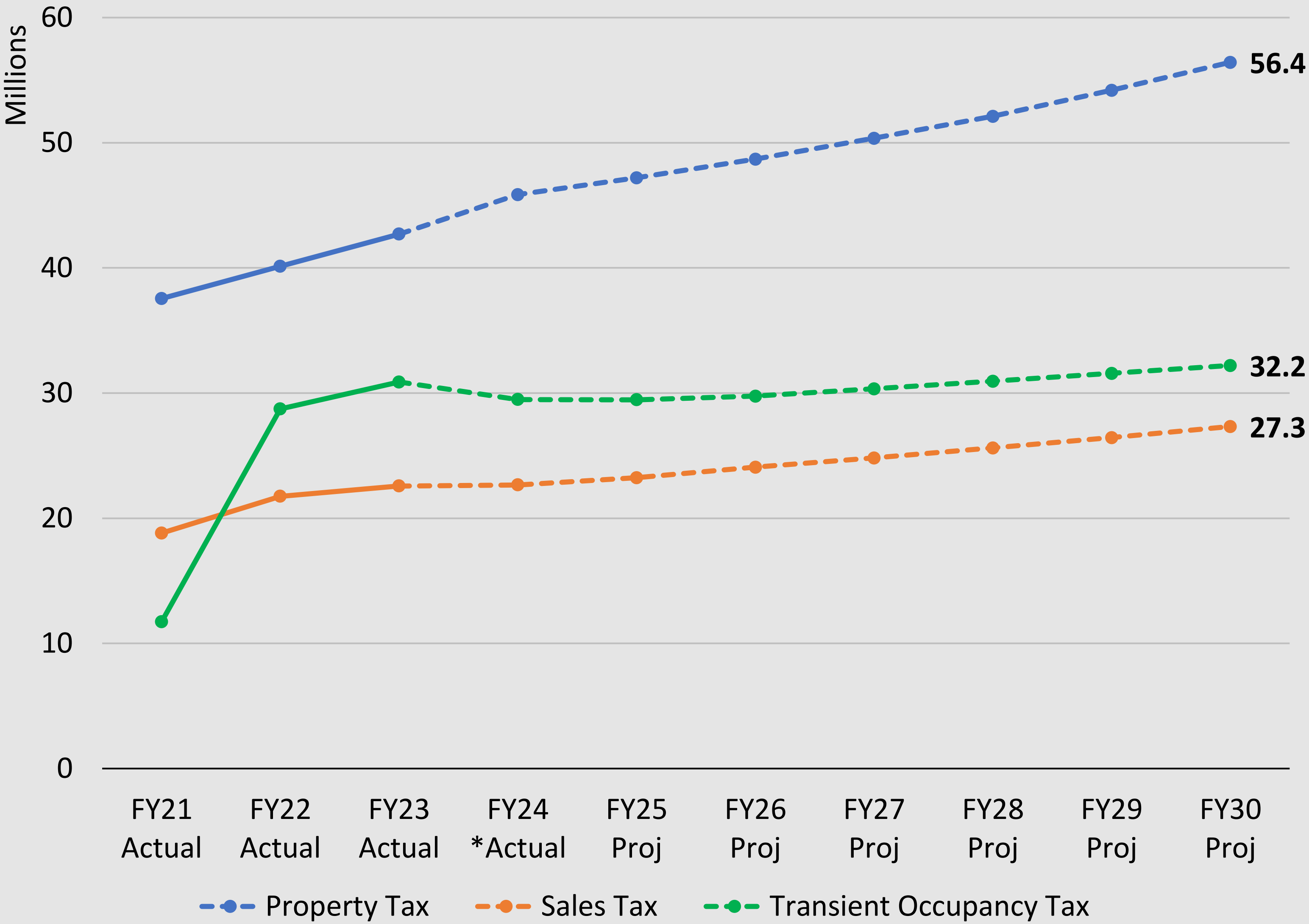
Property, Sales & TOT Revenue



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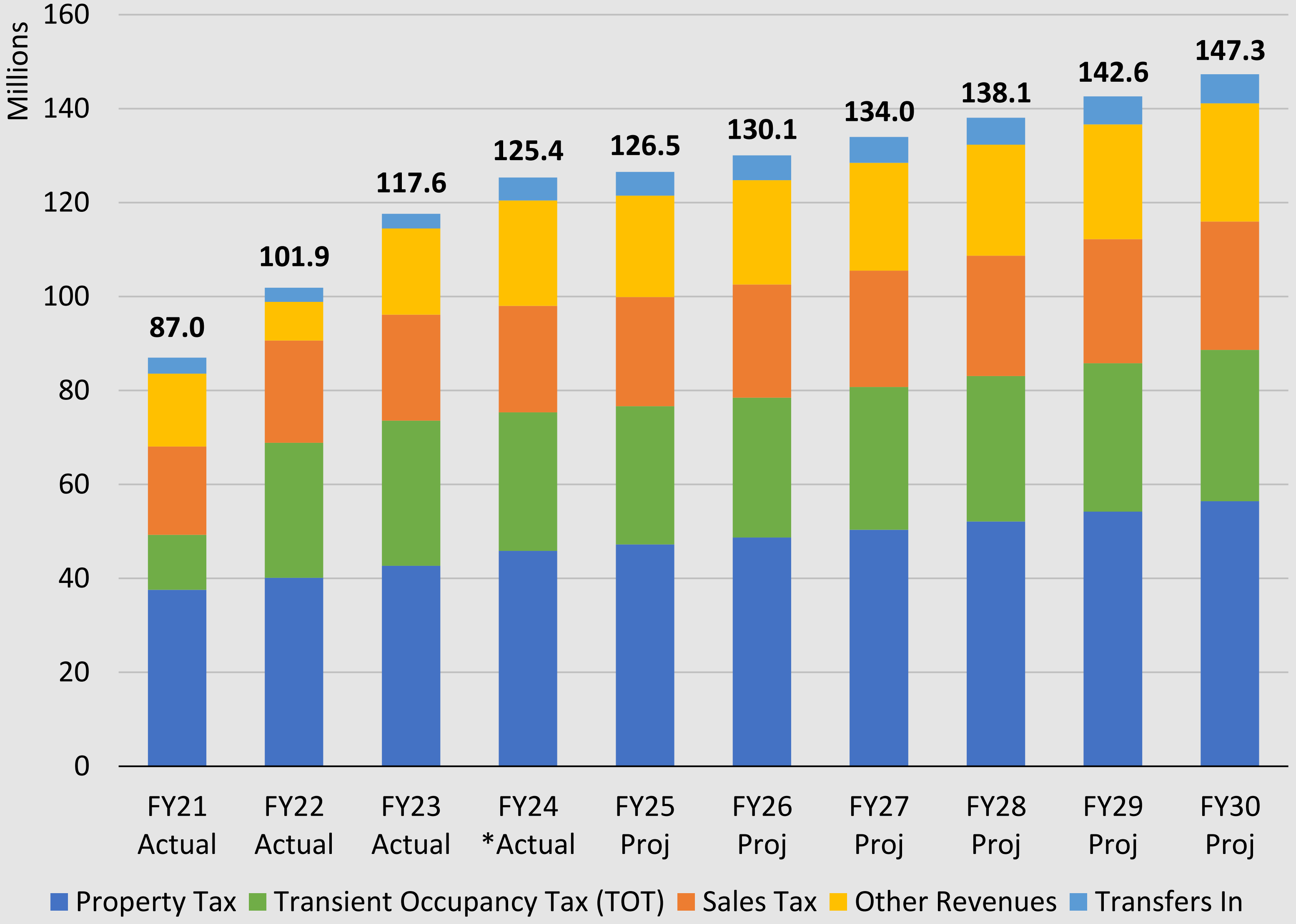
Revenue Forecast



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Forecast Assumptions

Annual Expenditure Growth Rates

- Based on historical trends, core City services
- Staffing: No new positions beyond FY25 budget
- Salaries & Wages: 3.7% combined rate for COLA and step increases beyond MOUs
- 4.5% annual increase in healthcare/dental costs
- -2.1% average annual increase in CalPERS normal costs (payroll)
- CalPERS UAL schedule increasing 6.7%
  - Reflects rising annual costs, peaking in FY31 at $21M (GF)

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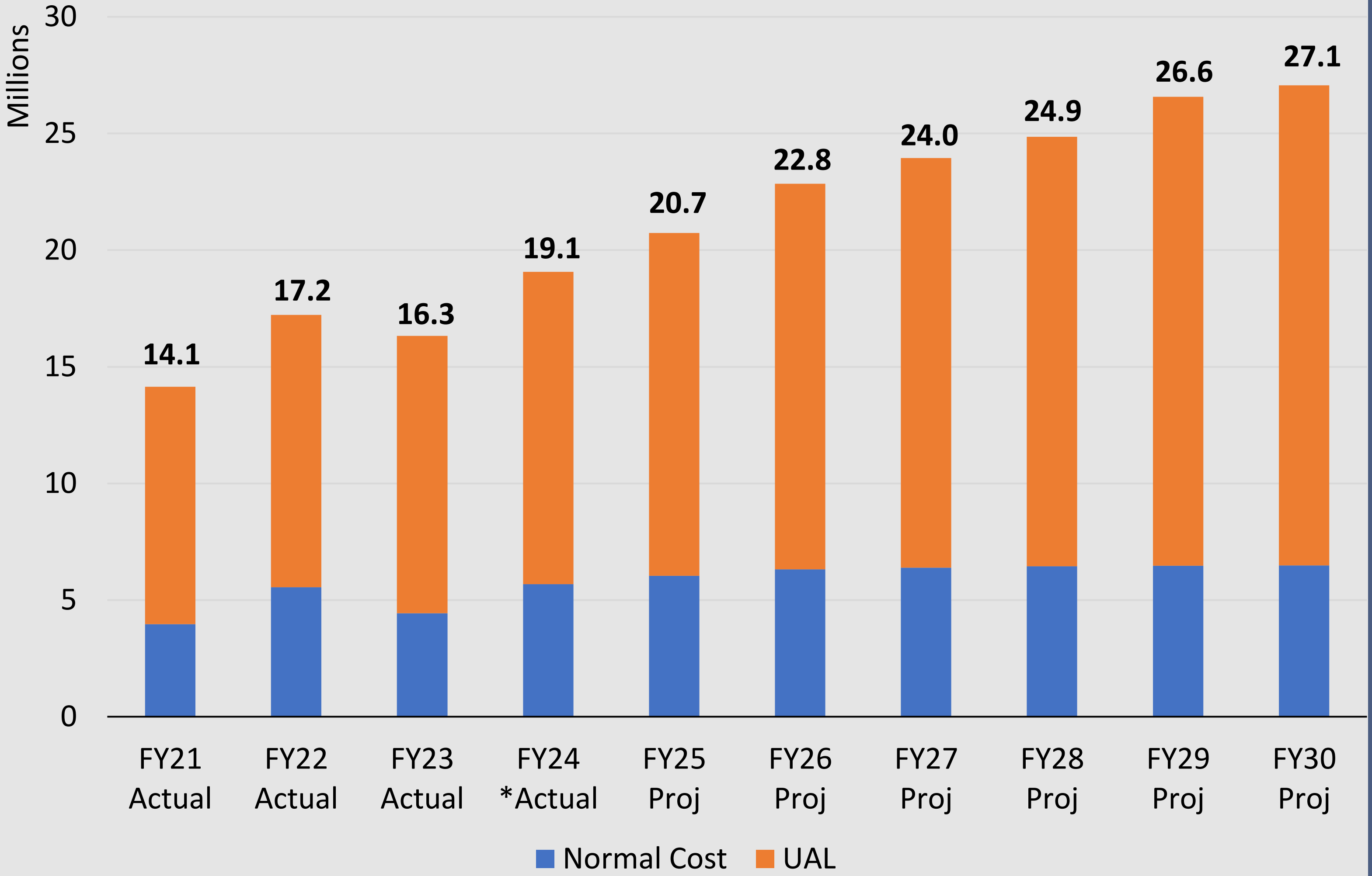
Projected CalPERS Costs General Fund Only



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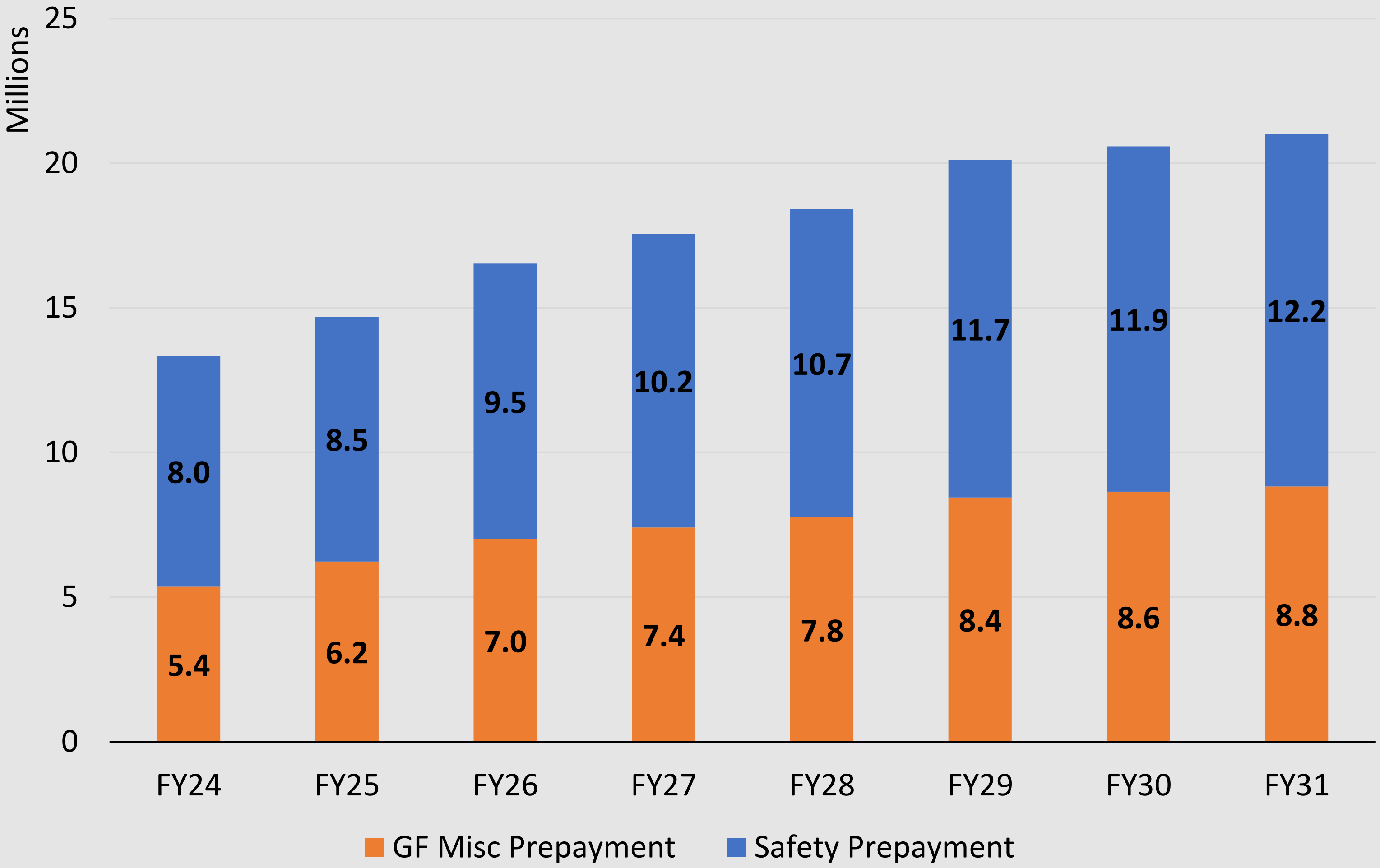
Projected CalPERS UAL Prepayments - GF



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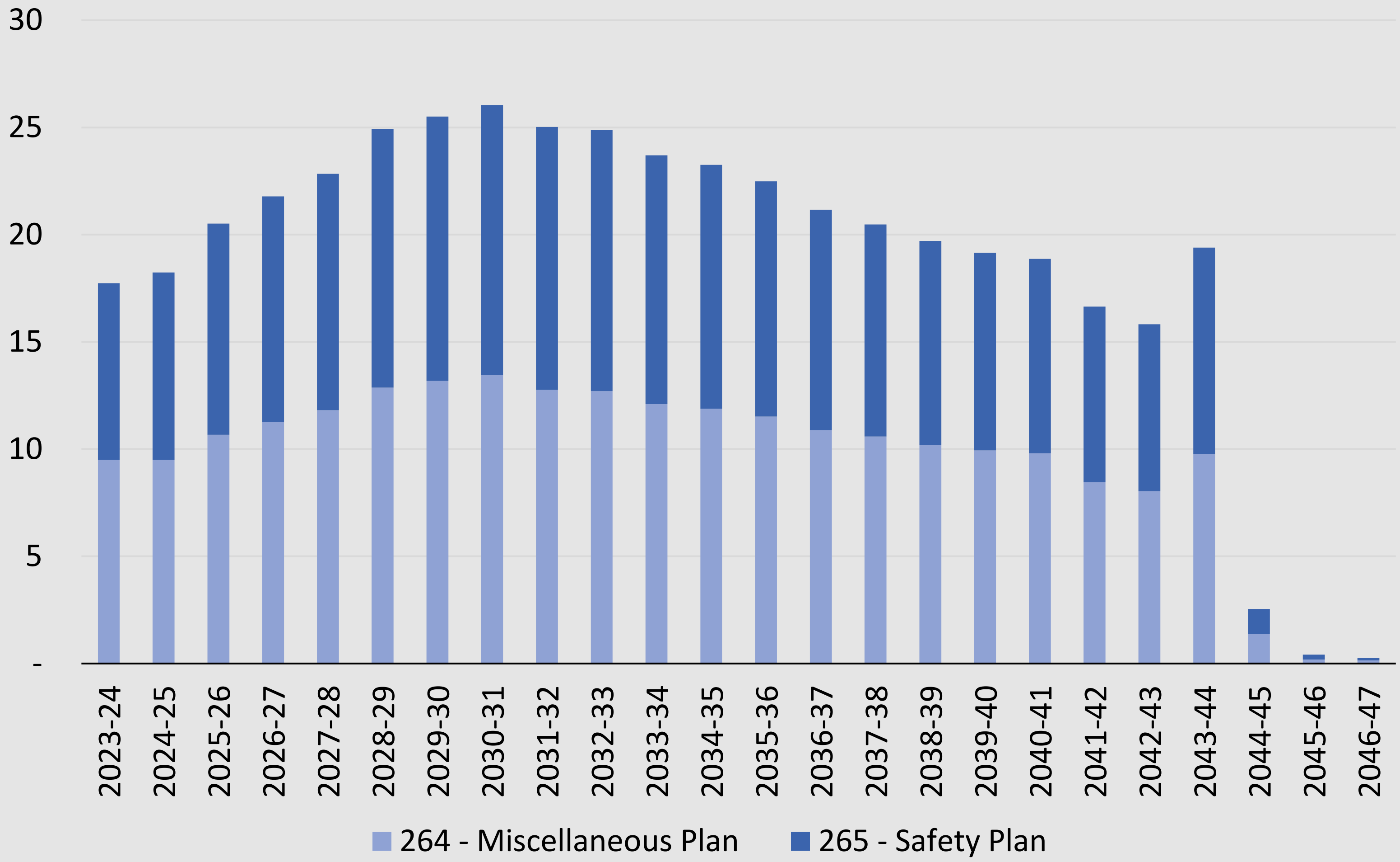
Projected CalPERS UAL
All Funds



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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 3.21%, Risk 15.3%
- Discretionary
  - Services & Supplies: 4.3% - Capping at 3%
    - Professional Services, General Supplies, Travel/Training, etc.
  - Transfer to Sidewalks Program: $0.9 million/year

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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
  - General Fund Reserves: bring balances up to equal 14% (Emergency), 5% (Operating), or 1% (Contingency) of Operating Budget

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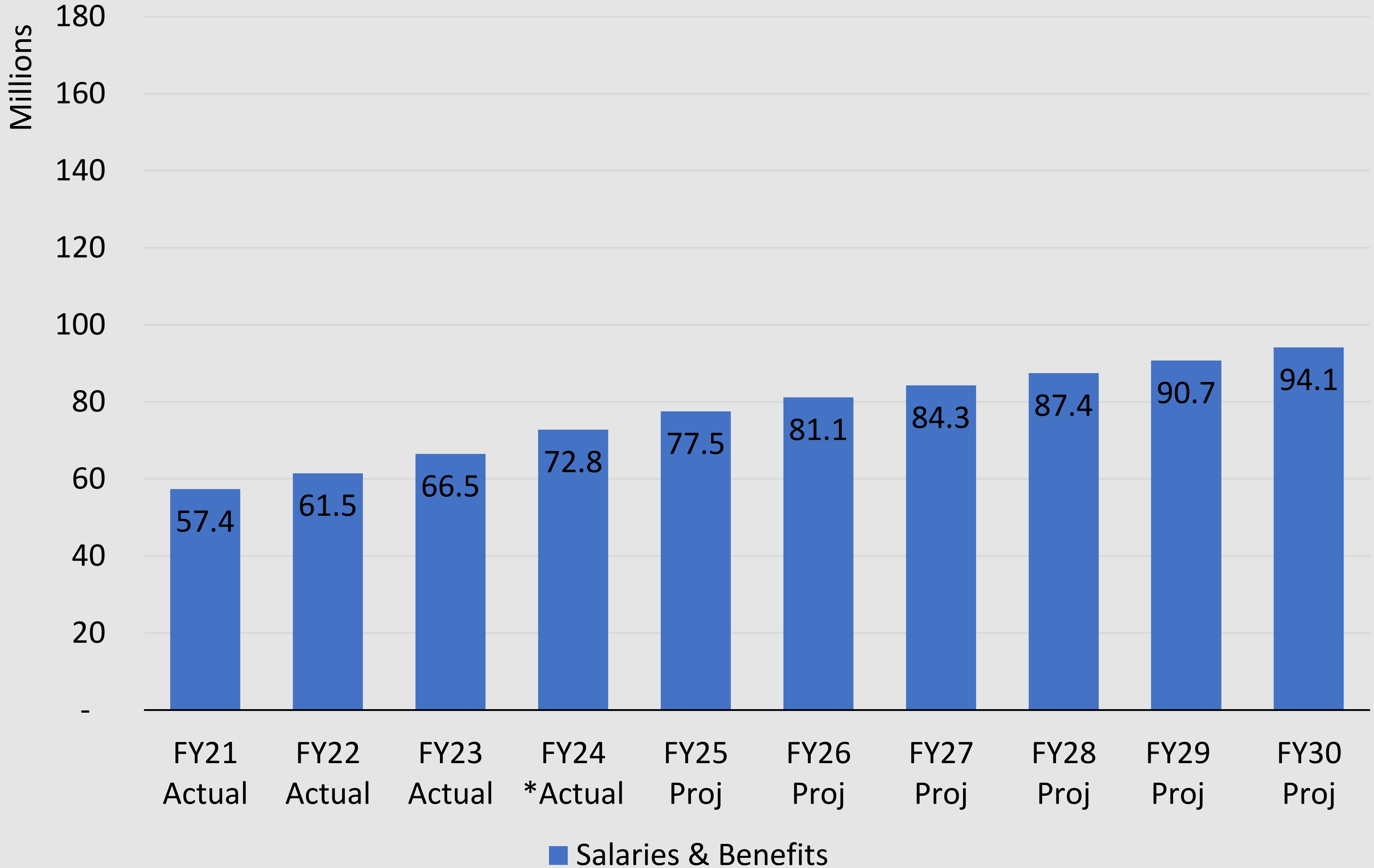
Expenditure Forecast



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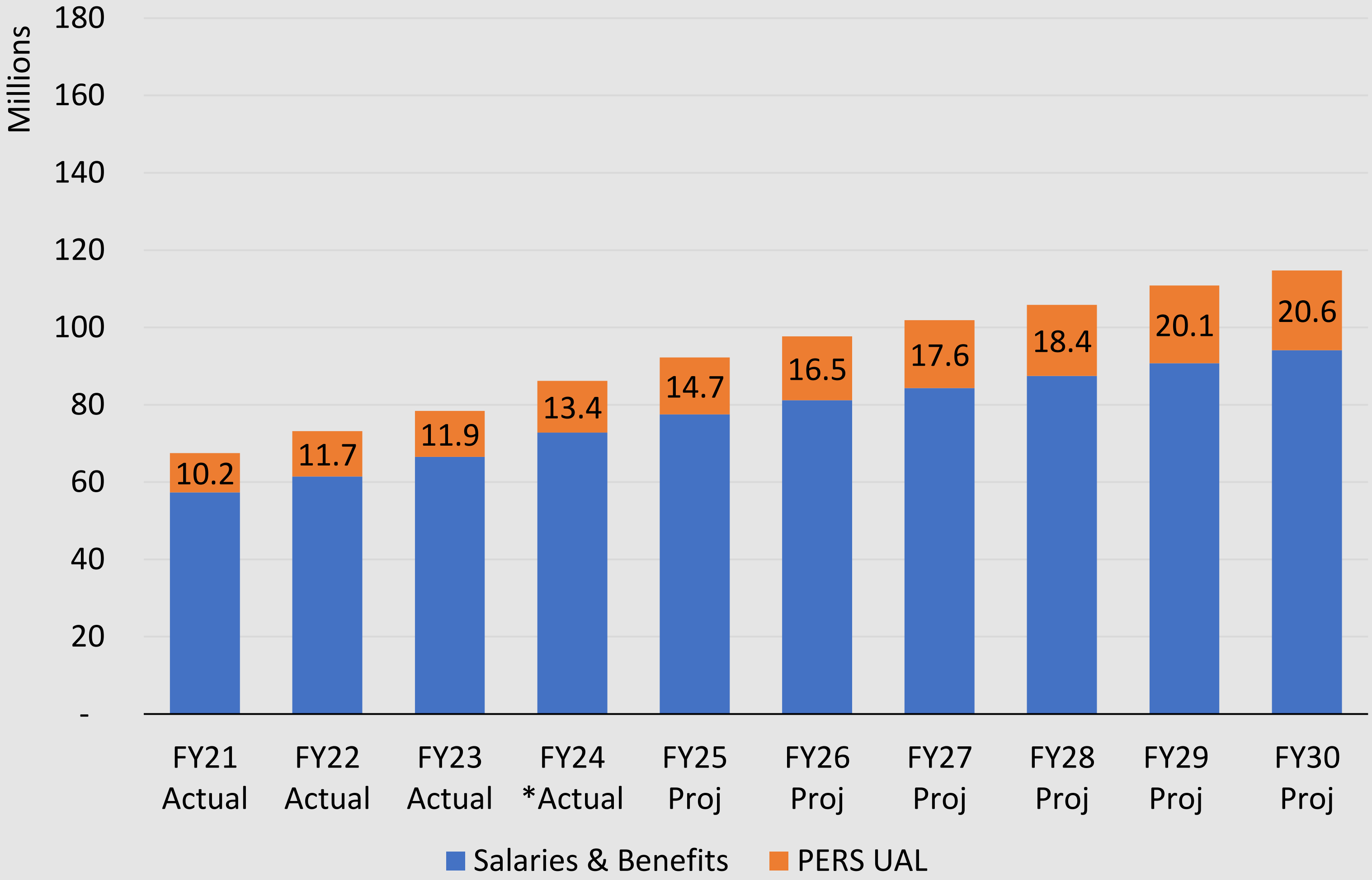
Expenditure Forecast



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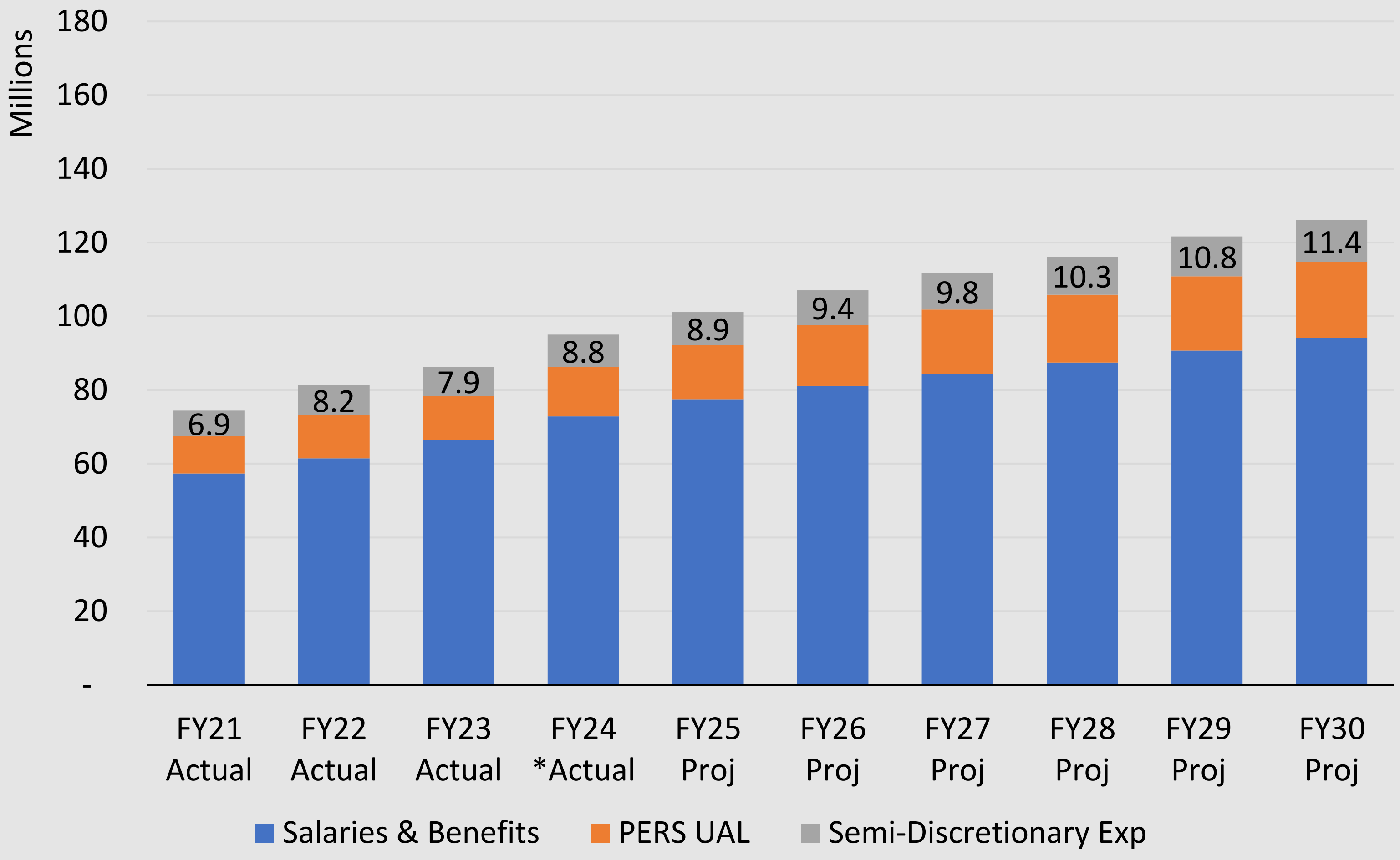
Expenditure Forecast



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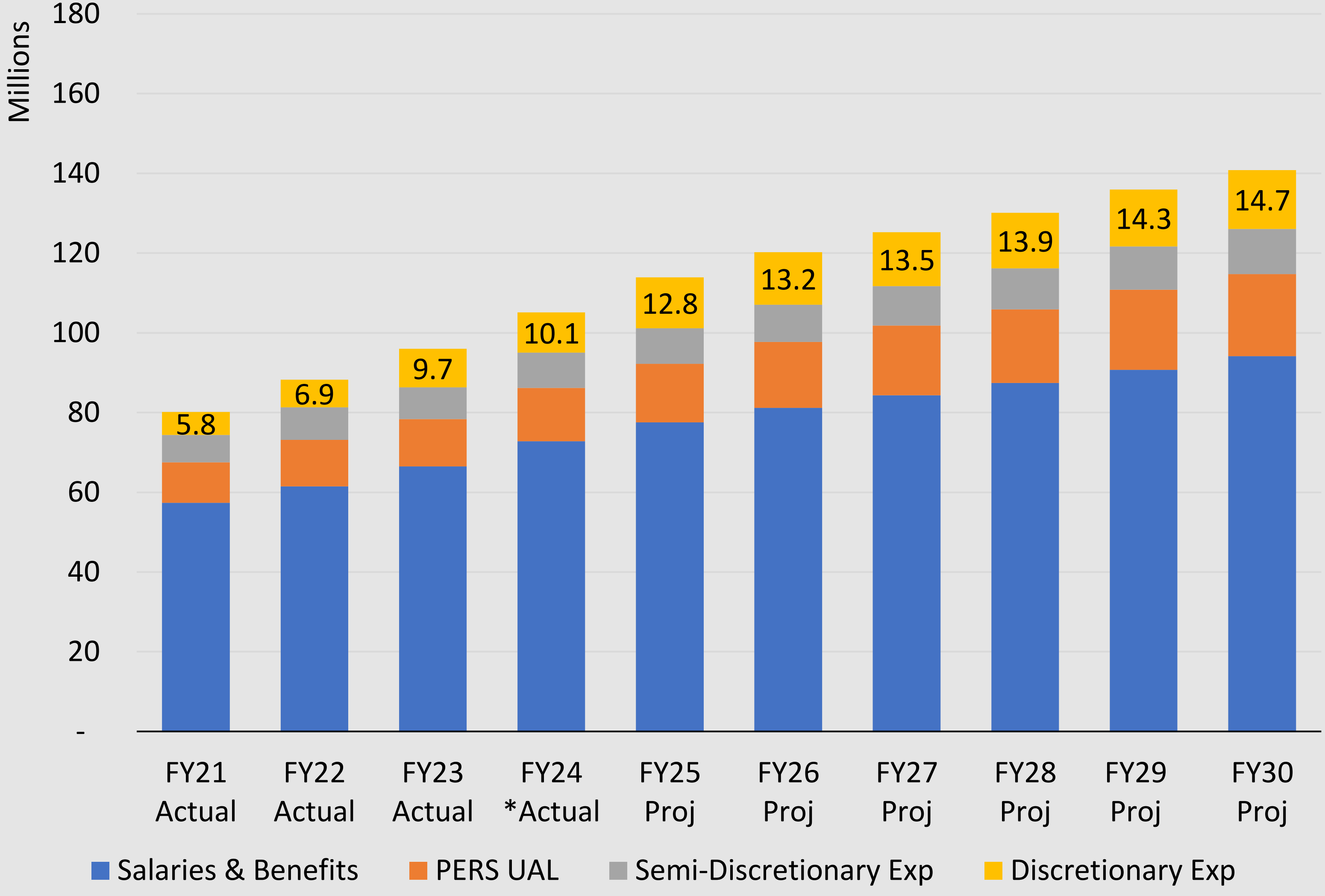

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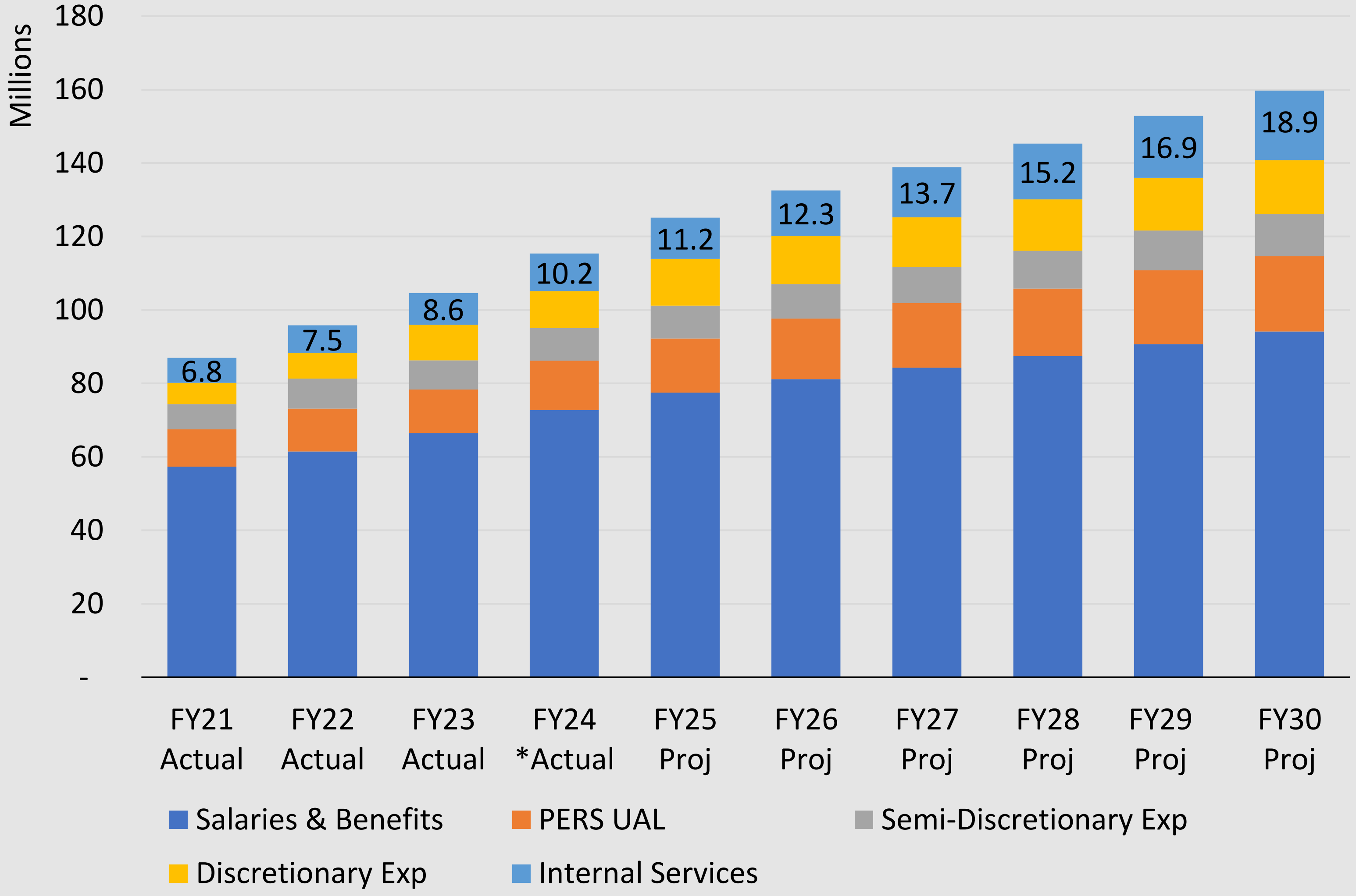
Expenditure Forecast



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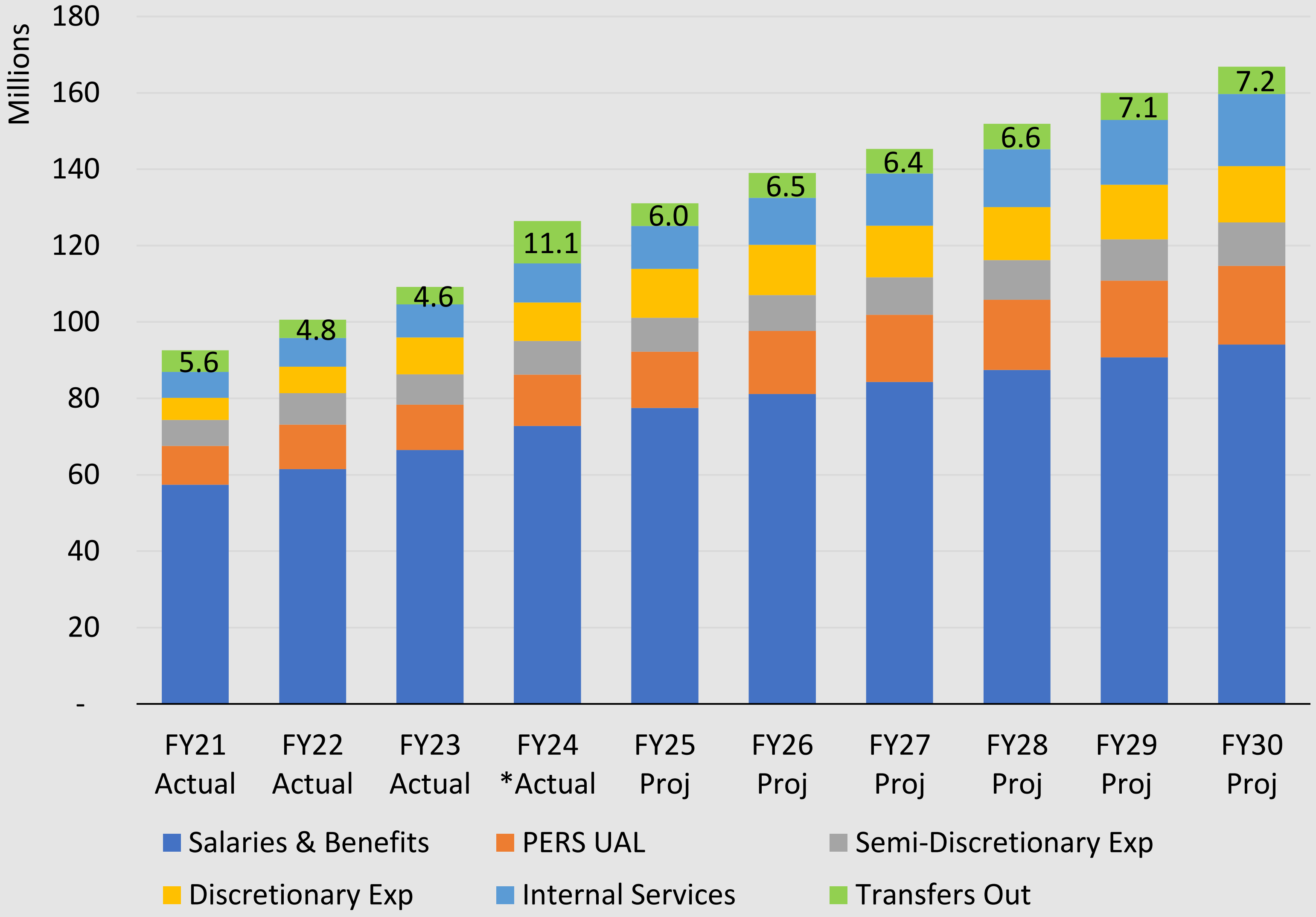
Expenditure Forecast



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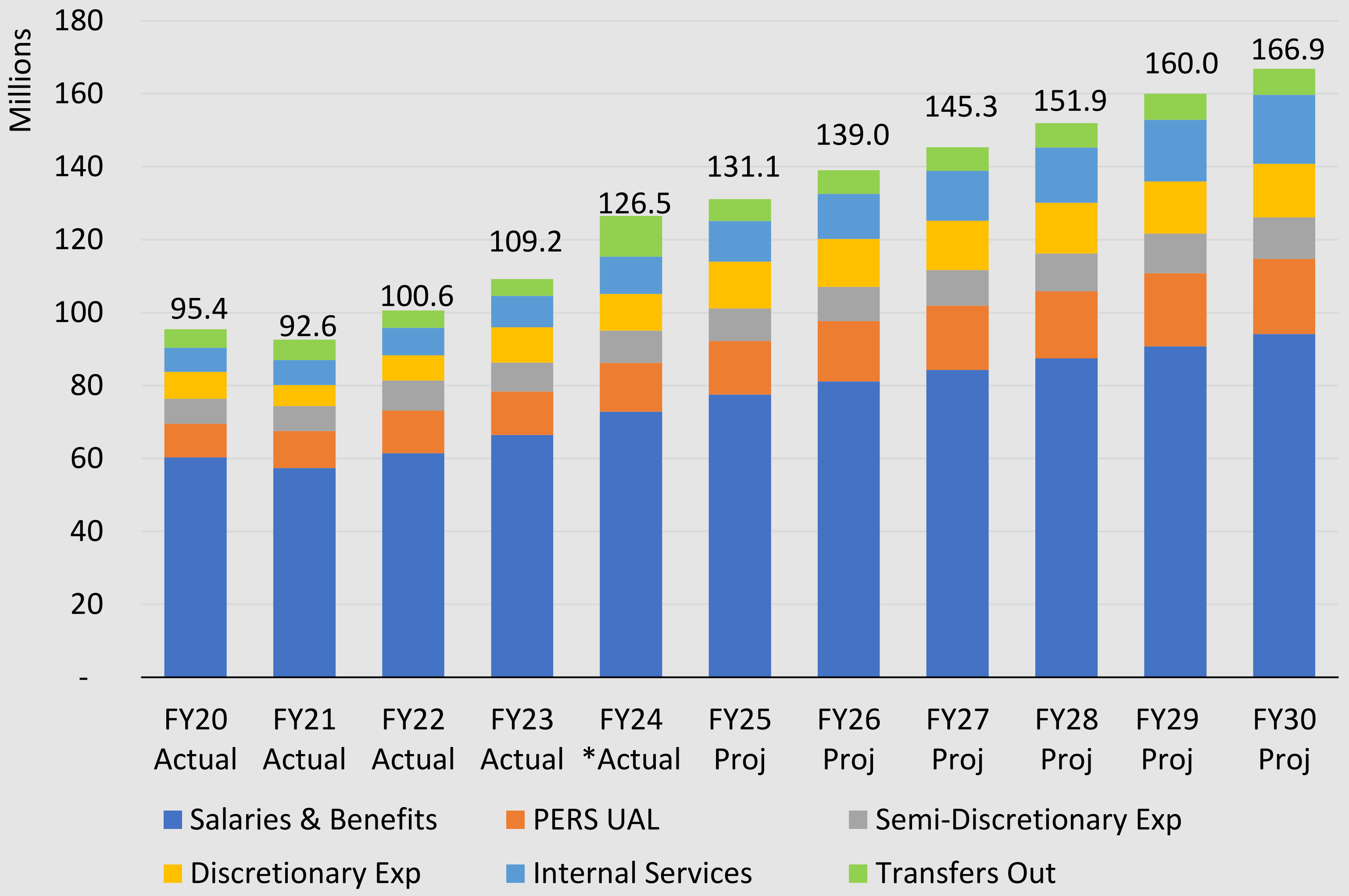
Expenditure Forecast



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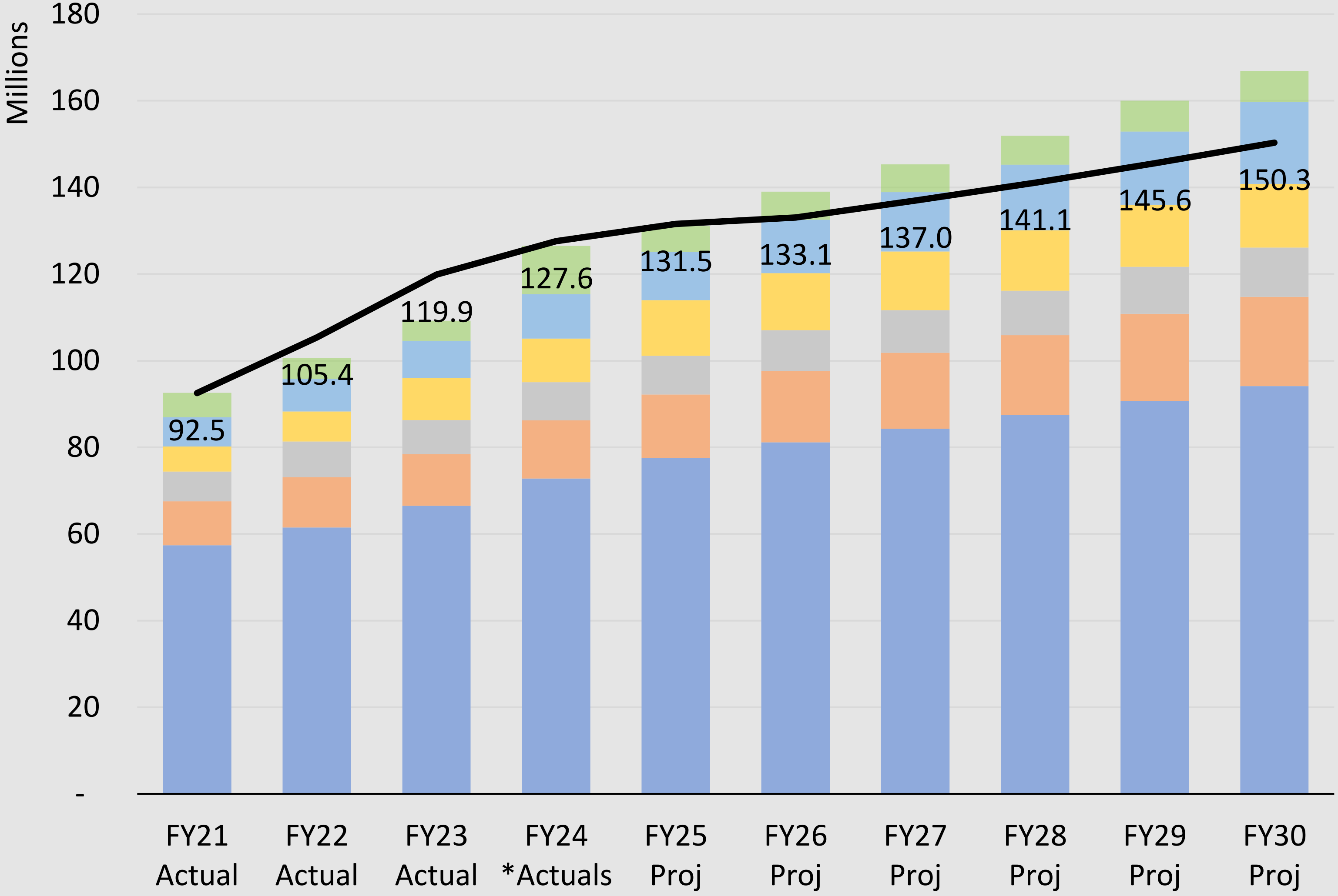
Revenues & Expenditures



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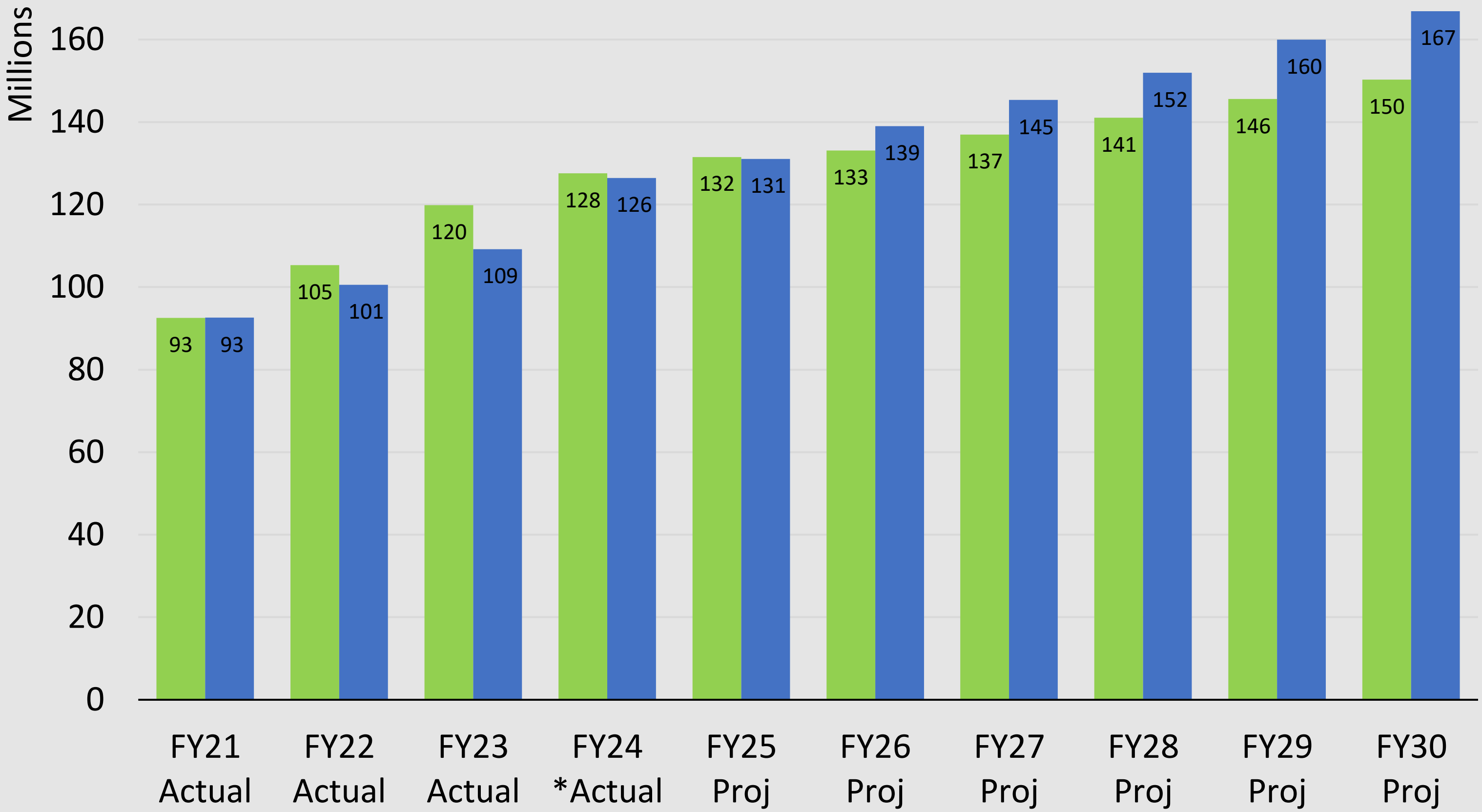
Revenues & Expenditures



Includes continued use of one-time revenues through FY30

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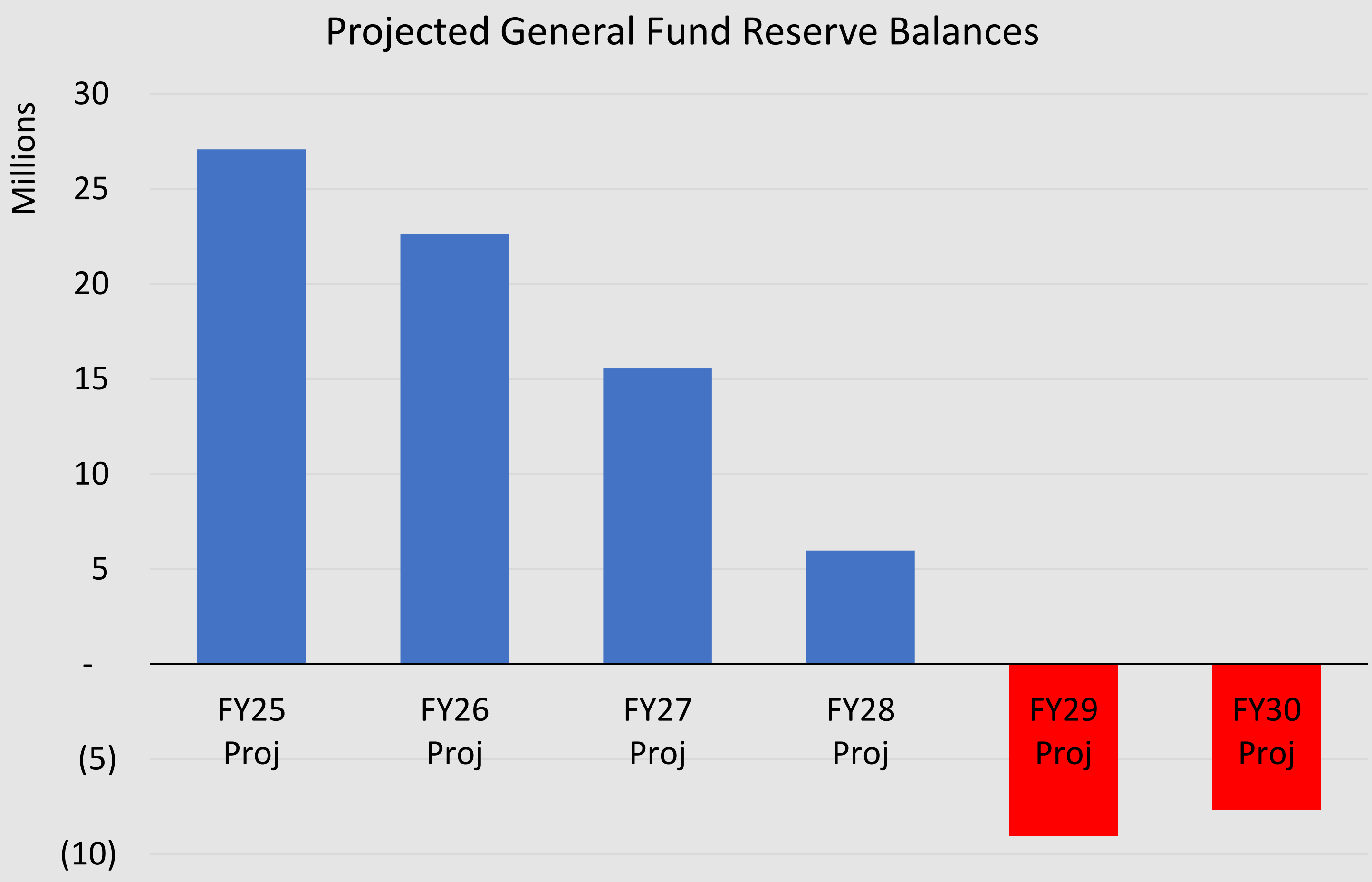
Usage of General Fund Reserves



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New Revenue – Measure G

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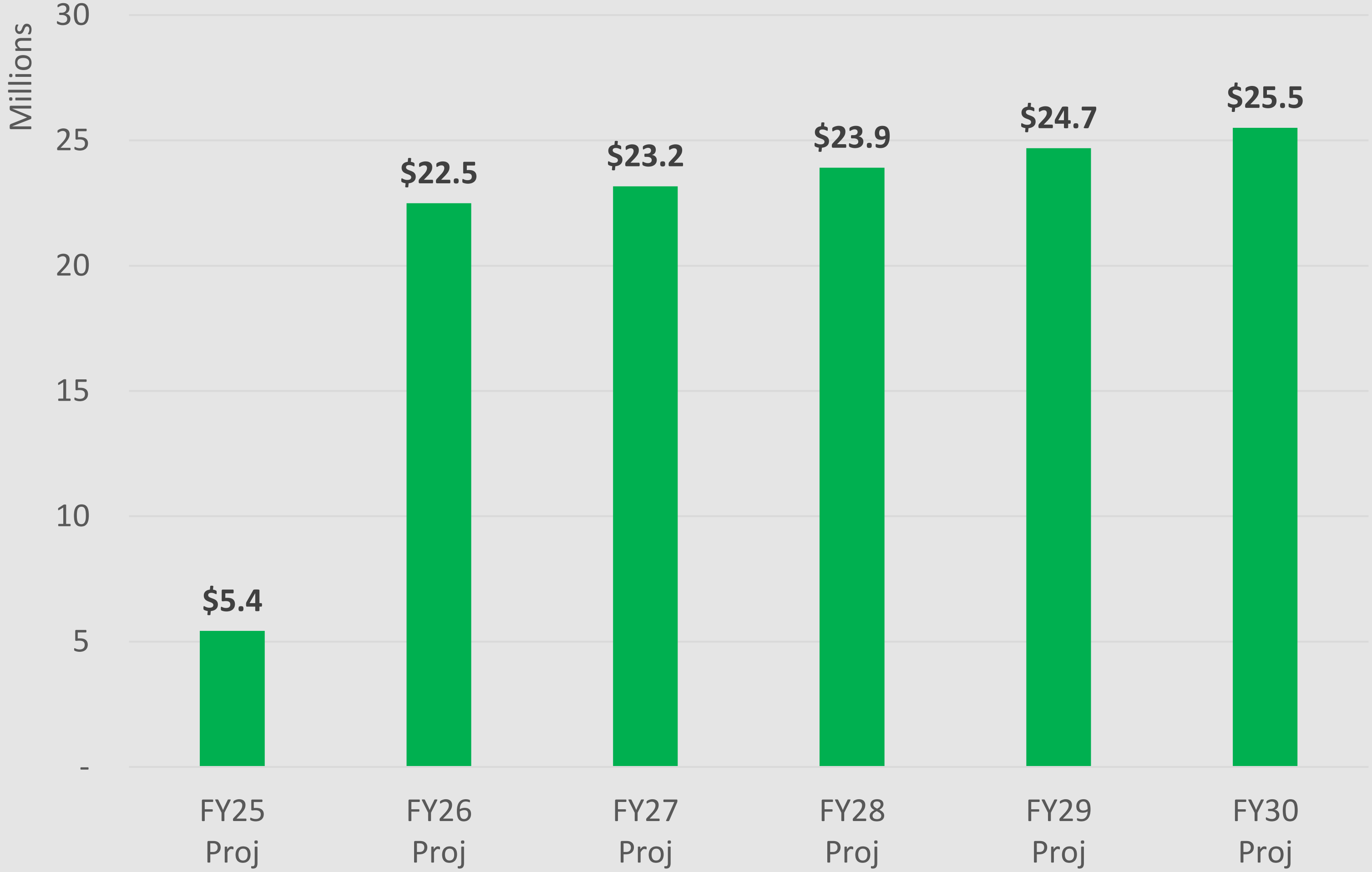
Measure G - Projected Revenue



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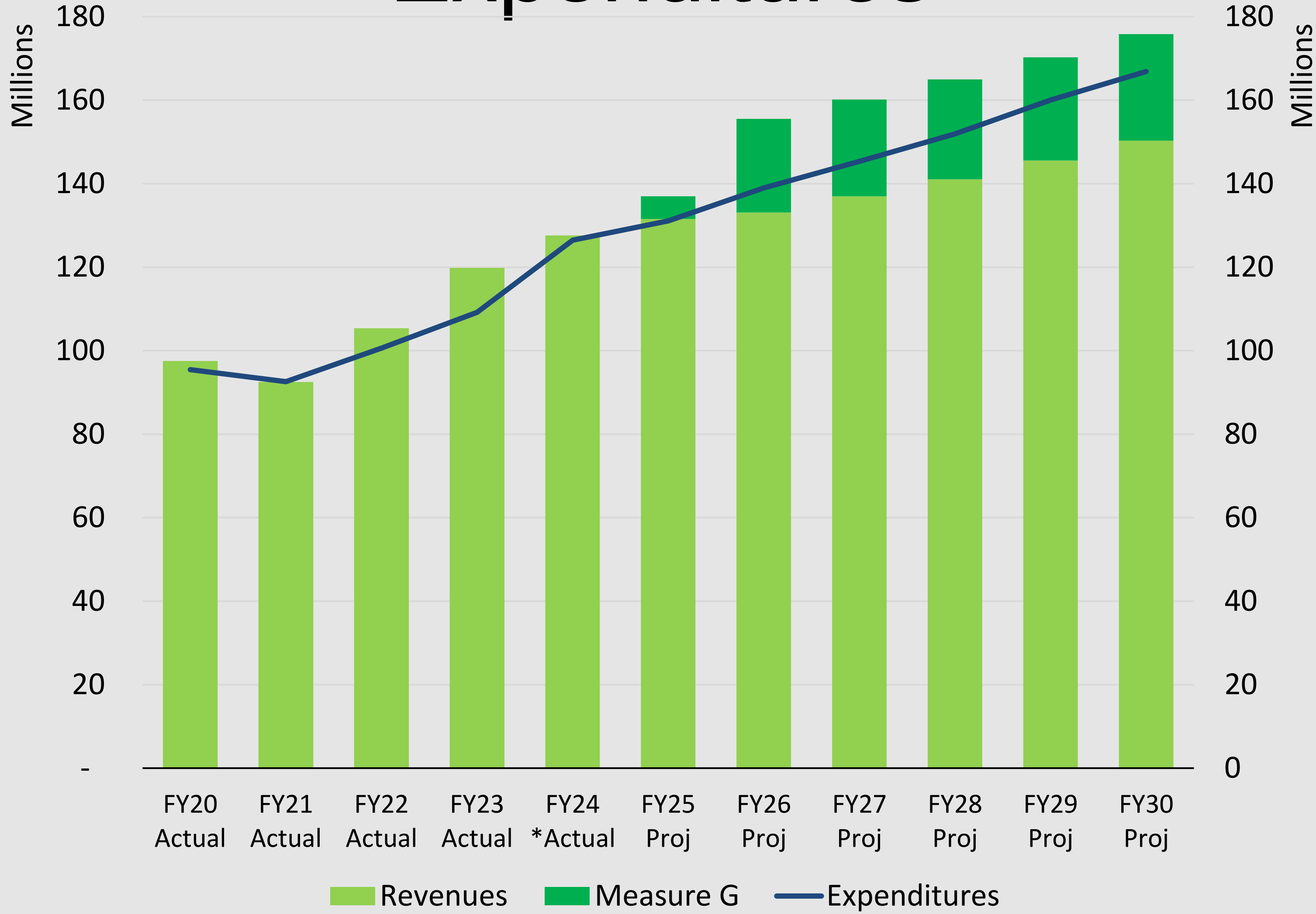
Revenues, Measure G & Expenditures



Includes continued use of one-time revenues through FY30

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Summary

- Revenues growth is stabilizing
- Economic Uncertainty – VLF, ERAF & UAL
- As Measure G decision are made, continue to analyze impacts
- Ensure long-term fiscal stability

What's Next?

- January 30: Council Workshop
- February/March:
  - End of Year Report/ACFR (FY 23/24)
  - Mid-Year Report – revenue adjustments as needed
- May/June: Budget Workshop & 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.

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Comments / Questions?

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End of Presentation

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