



## Staff Reports

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**File #:** 174-2020, **Version:** 1

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**To:** Honorable Mayor and Members of City Council

**From:** Bret Prebula, Finance Director

**Prepared By:** Jessie Gooch, Finance Analyst

**TITLE:**

2020 Updated Long Term Financial Forecast

**RECOMMENDED ACTION:**

Receive and discuss the 2020 Updated Long Term Financial Forecast.

**DISCUSSION:**

COVID-19 has affected numerous aspects of our work and personal lives. The challenges before us are starkly different: how to retool to deliver essential services; how to mitigate the disastrous economic impact on our residents and businesses; how to jumpstart a robust recovery; and how to cope with a dire fiscal emergency on top of the public health crisis.

It becomes more important now than ever to ensure we evaluate the short-term to intermediate future of our financial position. Typically, the City of Napa prepares the Long-Term Financial Forecast (LTFF) on an annual basis to report projected revenues and expenditures of the General Fund over a 10-year period. The 2020 LTFF was brought to Council in November 2019. Given the challenges the City is now facing due to COVID-19, we are bringing an updated five-year projection to Council.

The LTFF includes the following information:

- Current Economic Information
- Revenue and Expenditure Assumptions
- General Fund Financial Forecast

The LTFF reflects a five-year structural deficit under the current assumptions and conditions. A summary of the baseline assumptions for revenue and expenses are outlined below. The majority of these assumptions remain unchanged from the original 2020 LTFF. It is important to note, the LTFF is a forecasting/planning tool but does not bind council to the assumptions within the forecast (COLA assumptions, no new positions added, risk management increase etc.). The assumptions are used to create a reasonable baseline for the forecast.

As shown in the forecast, regardless of the speed of the recovery, decreases in General Fund ongoing expenses must occur to ensure the General Fund budget reaches structural balance throughout the next five years. The General Fund cannot simply rely on its reserves to fill the structural deficit as that would eliminate the General Fund Reserves within the next two to three years.

## Baseline Revenue and Expense Assumptions:

### Revenue

- Sales Tax and TOT return to FY 2018/19 levels of activity by the end of FY 2021/22.
- Sales Tax annual growth rate 2% from FY 2022/23 forward
- TOT annual growth rate 1.5% from FY 2023/24 forward. New hotel development assumptions adjusted to ramp up occupancy more slowly.
- Business License annual growth rate 2% (reduced from 3% in prior LTFF)
- Assumptions Unchanged from Previous LTFF
  - Property Tax annual growth of 4%
  - Use of Excess ERAF at \$1.2M for ongoing operations
  - Other Taxes and Licenses & Permits annual growth of 1%
  - Charges for Services, Intergovernmental, Investment Earnings, Miscellaneous, and Transfers In revenues annual growth of 2%

### Expense

- FY 2020/21 frozen vacancies are filled (for forecasting purposes only)
- FY 2020/21 one-time reductions are reinstated
- \$250K additional annual payment to Risk Management Fund
- Contracted COLA's
- Assumptions Unchanged from Previous LTFF
  - Years without contracts assumed COLA at 2.76% (10-year CPI as of October 2019)
  - Step increases at 0.55%
  - PERS Rates based on actuarial report
  - Other benefits (health, dental, etc) annual growth of 3%
  - Vacancy Factor annual growth of 2.5%
  - External Services annual growth of 1%
  - Materials and Supplies annual growth of 2%
  - Internal Services annual growth of 3%
  - Transfers Out to reserves at full Fiscal Policy levels

The LTFF also includes a second revenue scenario in which revenues recover at a slower rate, and an expense scenario that holds the 31 positions frozen in FY 2020/21 vacant for the course of the forecast.

This forecast is based on reasonable assumptions using the data currently available. The forecast will be updated throughout FY 2020/21 as new data is received, and to adjust for changing economic conditions.

The above forecast does not include the potential \$9.1 million loss of Vehicle License Fee (VLF) revenue for FY 2020/21 and potentially an additional year delay in payment. This impact would increase the structural deficit and will require additional proactive measures to ensure the General Fund achieves structural balance. It also does not include any increases to CalPERS rates, or any additions to the staffing plan.

**FINANCIAL IMPACTS:**

There is no financial impact as the Long-Term Financial Forecast is presented for informational purposes only.

**CEQA:**

The Finance Director has determined that the recommended actions described in this agenda report are not subject to CEQA, pursuant to CEQA Guidelines Section 15060(c).

**DOCUMENTS ATTACHED:**

ATCH 1 - 2020 Updated Long-Term Financial Forecast

**NOTIFICATION:**

None