



## AGENDA BILL

Agenda Item No. 7.A.

**Date:** February 4, 2020  
**To:** El Cerrito City Council  
**From:** Karen Pinkos, City Manager, City Management  
Mark R Rasiah, Finance Director/City Treasurer, Finance Department  
**Subject:** Long Term Financial Forecast and Budget Study Session

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### ACTION PROPOSED

Receive and file an update on the City's General Fund Long Term Financial Forecast (LTFF) and provide staff with directions on budget reductions for the FY 20-22 biennial budget.

### BACKGROUND

In April 2017, City Council conducted a review of the General Fund Long Term Financial Forecast (Forecast) and provided guidance to Staff on the preparation of the current biennial FY 2018-19 and FY 2019-20 budget.

The General Fund Forecast is a high-level planning tool to help manage the City's financial resources over the long term. The Forecast establishes a framework to assist the City Council make informed financial decisions. The Council has historically been prudent in its management of the City's finances and takes a conservative approach to financial forecasting. This philosophy has allowed the City to avoid implementation of painful service reductions in the past.

Over the past several months, a number of variables impacting the Forecast have changed which have had a significant impact on the projections. This report provides an overview of the changes to the Forecast.

### ANALYSIS

The Forecast is a dynamic tool that changes with economic or assumption shift. Staff is presenting the Forecast to City Council following several forecast modifications that have significantly altered the forecast. It is timely to consider these changes now as staff begins to develop the upcoming biennial FY 2020-21 and FY 2021-22 budget.

### Key General Fund Forecast Changes

Overall, the Forecast is based on a few main assumptions (Attachment 2) as previously presented to City Council. However, the changes described below have impacted the forecast beginning in FY 2020 and are reflected in the Baseline Scenario (Attachment 1). The Baseline Scenario is summarized as follows:

	Current		PROJECTIONS				
	Actuals	Budget	Forecast	Forecast	Forecast	Forecast	Forecast
<u>(\$000s)</u>	<u>Draft CAFR</u>	<u>Amended</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>
Revenues	39,354	39,965	41,781	42,998	44,265	45,449	46,684
Expenditures	40,202	39,562	41,946	43,666	45,222	46,715	48,248
Total other financing sources (uses)	(86)	234	209	209	(241)	(241)	(291)
Special Items	801						
Change in Fund Balance	(143)	637	44	(458)	(1,198)	(1,507)	(1,855)
Fund balance - July 1	87	(56)	581	625	167	(1,031)	(2,539)
Fund balance - June 30	(\$56)	\$581	625	167	(1,031)	(2,539)	(4,394)
GENERAL FUND RESERVE RATIO	-0.1%	1.5%	1.5%	0.4%	-2.3%	-5.4%	-9.1%

### FY 2019 Year-End Results

FY 2019 ended with a General Fund total fund balance deficit of \$56,592. With FY2019 results now finalized, we are better able to project revenues for FY 2020 and subsequent years. Staff has reviewed both revenue and expenditure projections based on actual performance (less any one-time changes) and have made some minor modifications.

### Property Tax and Sales Taxes

The previous Forecast had assumed Property Tax and Sales Tax growth rates of 6% and 2% respectively. With the recent decline in the median sale price of homes in the City by 0.5%, and based on FY 2019 results, the Property Tax Growth rate is being lowered to 5.5% and the Sales Tax growth rate to 1.0%.

### Measure V Real Property Transfer Tax Revenue (RPTT)

Annual RPTT revenue of \$2.7 million was projected with the passage of Measure V in November 2018. However, revenues have been closer to \$2.0 to 2.2 million in the year since the inception of the tax. Therefore, the Forecast projects RPTT Revenue of \$2.5 million annually through FY 2025 instead of \$2.7 million. This new revenue source will be used primarily to fund public safety overtime costs which have been trending above \$1.5 million annually. The remainder will be used to build up General Fund reserves.

### CalPERS retirement Contributions

Beginning in 2018, CalPERS retirement contributions for all Miscellaneous and Safety employees have increased significantly by more than the 3% annual increase assumption applied to all costs in the forecast. The Forecast incorporates the increases projected by CalPERS through 2025.

### Redevelopment Agency Advance

Staff is proposing setting aside funds beginning in FY 2023-25, to be able to write off the General Fund advance to the Successor Agency that was used to repay the Department of

Finance claim which is under appeal, in case the appeal is denied.

FY 2020 Mid-Year Budget Amendments

Staff will be proposing mid-year budget reductions of \$500,000 for Property Taxes based on FY 2019 trends; a reduction of \$500,000 in Sales Taxes due to Cannabis tax collections not materializing as planned; \$500,000 reduction in various operating expenditures; and an increase in Public Safety overtime to be funded by an increase in Transfer Taxes.

**STRATEGIC PLAN CONSIDERATIONS**

This fiscal update is consistent with Strategic Plan Goal A: Deliver exemplary government services and Goal B: Achieve long-term financial sustainability.

**ENVIRONMENTAL CONSIDERATIONS**

This section is not applicable to this agenda item.

**FINANCIAL CONSIDERATIONS**

This item is informational, and no action is requested at this time.

**LEGAL CONSIDERATIONS**

This section is not applicable to this agenda item.

**Reviewed by:**



Karen Pinkos, City Manager

**Attachments:**

1. Five-Year Forecast 2020 - 2025 Feb 2020 Baseline Scenario
2. LTFF ASSUMPTIONS



FY 2020-2025 Assumptions

Prop Tax Growth Rate	5.5%
Sales Tax/Other Tax Growth Rate	1%
Other Revenue Growth Rate	3%
Expenses Growth Rate	3%

GENERAL FUND FIVE YEAR FORECAST WITH TENTATIVE BUDGET AMENDMENTS FOR FY 2020

FY 19-20 Budget Changes

Property Taxes (-\$500k)	RPTT (+\$1,150k)
Sales Taxes (-\$500k)	Expenses (-\$500k)

AUDITED ACTUALS

	Actuals	Actuals	Actuals	Actuals	Actuals
	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Revenues:</b>					
Property taxes	\$5,414	\$6,191	\$6,805	\$7,908	\$9,487
Sales Taxes	\$5,150	\$5,361	\$5,036	\$5,750	\$6,458
Other non property Taxes	4,965	5,395	5,700	5,006	5,386
<b>Real Property Transfer Tax</b>					
Leases and permits	517	540	493	608	720
Fines and forfeitures	289	388	277	327	351
Use of money and property	317	290	350	312	346
Intergovernmental	3,544	3,461	4,036	3,622	3,623
VLF - Hdl.	1,775	1,686	1,995	1,835	2,340
Charges for services	4,451	4,781	4,275	4,391	6,099
Other revenues	289	146	119	768	578
<b>Total revenues</b>	<b>26,711</b>	<b>28,249</b>	<b>29,106</b>	<b>30,627</b>	<b>34,476</b>
<b>Expenditures:</b>					
General government:					
City Management	2,596	2,731	2,521	3,140	3,567
Financial services	1,150	1,236	1,207	1,219	1,360
Public works	711	518	642	1,117	1,416
Recreation	3,964	4,002	4,154	4,465	4,818
Community development	1,790	1,515	1,688	1,789	2,157
Public safety:	18,165	18,058	18,450	19,326	20,277
Fire additional O/T					21,250
<b>Pensions- Additional cost</b>					<b>300</b>
Capital outlay	140	105	135	183	46
Debt service:	44	88	91	83	203
<b>Total expenditures</b>	<b>28,561</b>	<b>28,253</b>	<b>28,898</b>	<b>31,312</b>	<b>36,250</b>
<b>Budget Reductions</b>					
Excess of revenues over (under) expenditures	(1,850)	(4)	208	(665)	605
<b>Emergency Reserves (EDRP)</b>					
Issuance of debt	1,595				
Transfers in	1,059	804	901	897	55
Transfers out	(1,753)	(1,889)	(918)	(624)	(317)
Capital Leases/Debt writeoff	901	(1,055)	(117)	273	(402)
Total other financing sources (uses)	(949)	(1,069)	191	(412)	203
Net change in fund balance					(732)
Special Items/Deferred Revenue					
Fund balance - July 1	3,289	2,340	1,271	1,462	616
Fund balance - June 30	\$2,340	\$1,271	\$1,462	\$1,050	\$819
FUND BAL./EXPENDITURES	8.2%	4.5%	5.1%	3.4%	2.5%

BUDGETED PERS CONTRIBUTIONS (\$000s)  
REQUIRED PERS CONTRIBUTION

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
<b>DRAFT CAFR</b>							
2018-19	\$9,931	\$10,440	\$11,014	\$11,620	\$12,259	\$12,933	\$13,645
2019-20	\$7,545	\$7,100	\$7,171	\$7,243	\$7,315	\$7,388	\$7,462
	5,782	6,180	6,242	6,304	6,367	6,431	6,495
<b>1,103</b>	<b>2,000</b>	<b>2,500</b>	<b>2,500</b>	<b>2,500</b>	<b>2,500</b>	<b>2,500</b>	<b>2,500</b>
	776	993	1,023	1,053	1,085	1,118	1,151
	219	351	362	372	384	395	407
	157	396	408	420	433	446	459
	4,091	3,727	3,639	3,954	4,073	4,195	4,321
	2,654	2,760	2,862	2,987	3,116	3,116	3,116
	6,934	5,933	6,111	6,284	6,463	6,678	6,878
	182	85	250	280	250	250	250
	39,354	39,965	41,781	42,998	44,265	45,449	46,684
	4,403	4,134	4,258	4,386	4,517	4,653	4,792
	1,531	1,421	1,464	1,508	1,553	1,599	1,647
	1,967	2,016	2,076	2,139	2,203	2,269	2,337
	5,794	5,685	5,856	6,031	6,212	6,399	6,590
	2,522	2,562	2,639	2,718	2,800	2,894	2,970
	23,379	23,649	24,358	25,089	25,842	26,617	27,416
<b>300</b>							
	344	165	165	165	165	165	165
	262	130	130	130	130	130	130
<b>40,202</b>	<b>40,062</b>	<b>40,862</b>	<b>41,946</b>	<b>43,566</b>	<b>45,222</b>	<b>46,715</b>	<b>48,248</b>
<b>(300)</b>	<b>39,562</b>	<b>40,562</b>	<b>41,646</b>	<b>43,266</b>	<b>44,922</b>	<b>46,545</b>	<b>47,848</b>
	(848)	403	(165)	(667)	(957)	(1,286)	(1,564)
	1,118	940	915	915	915	915	915
	(1,330)	(706)	(706)	(706)	(706)	(706)	(706)
	116	234	209	209	(241)	(241)	(241)
	(944)	637	44	(458)	(1,198)	(1,507)	(1,805)
	801	-56	581	625	167	-1,031	-2,539
	(\$56)	\$581	625	167	(1,031)	(2,539)	(4,344)
<b>-0.1%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>0.4%</b>	<b>-2.3%</b>	<b>-5.4%</b>	<b>-9.0%</b>	

CURRENT

PROJECTIONS

D R A F T

Attachment 1

Pensions- Additional cost INCLUDED above	4,986	5,920	6,669	6,869	7,075	7,287	7,506	7,731
				7,901	8,545	9,107	9,506	9,905
				1,032	1,470	1,820	2,006	2,174

**2021-2025 General Fund Long Term Financial Forecast  
ASSUMPTIONS – UPDATED Feb 2020**

**General Assumptions**

1. Prior year actuals and estimated FY 2019 (less one-time) form the baseline for projections
2. No new positions beyond those already budgeted for in FY 2020; salary savings targets are built into the forecast (vary by department)
3. No changes to service delivery
4. Transfers In & Out reflected in Forecast

**Revenue Assumptions**

1. Sales Tax
  - o FY 2021 – 2025 based on sales tax consultant “conservative” analysis
  - o Projects annual growth of 1.0%.
2. Property Tax
  - o FY 2020 based on property tax consultant “most likely” analysis
  - o FY 2021+ projects conservative annual growth of 5.5%
3. Other Taxes reflect annual growth of 3.0%
4. Department Revenues – 3% increase in FY 2021+

**Operating Expense Assumptions**

**Personnel Costs**

1. Wages – FY 2020 reflects current MOU changes, effective FY 2019 assumes 3% wage growth based on Bay Area 10-Year Consumer Price Index (CPI) average
2. Retirement – Pension cost increases pursuant to CalPERS and actuarial analysis
3. Medical – 3% annual growth based on estimate from City’s insurance broker and validated with Kaiser Foundation projections
4. Other Benefits – 3% growth based on Bay Area 10-Year CPI

**Non-Personnel Costs**

1. Generally, use Bay Area 10-Year CPI (3%)
2. Evaluate any specific expense categories for other recommended changes.  
Growth Assumptions:
  - o Utilities 3%; Repairs and Maintenance 3%; Professional Services and Other 3%
3. Infrastructure
  - o Capital Investment Program (CIP) \$165,000 effective FY 2021
4. Reserve allocations are in compliance with existing Council policy:
  - o Operating Reserve – target 10% of Operating Expenses
  - o Emergency Reserve– \$6 million goal at \$500k per year