



AGENDA REPORT

Department: City Manager's Office
Prepared by: Brad Raulston, City Manager
Meeting Date: Tuesday, March 21, 2023
Approved by: Brad Raulston, City Manager

SUBJECT:

Study Session - 5-Year Financial Forecast and Summary of Current Staff Priorities and Initial City Council Goals

RECOMMENDATION:

Receive report

BOARD/COMMISSION/COMMITTEE PRIOR ACTION:

Not Applicable.

EXPLANATION:

OVERVIEW

Current Staff Priorities and Initial City Council Goals

Staff presented a report to City Council on December 13, 2022 titled “Past Accomplishments, Existing Priorities, Future Goals”. The report provided an overview of those items that were organized both by department and strategic focus area. A summary of those existing priorities and future goals are attached to this report along with the “functional organization chart” that lists all of the core services that the city provides on a daily basis. The report also outlined the process for the 2023 city calendar that included the goal setting workshop planned for March 24, 2023. Also attached is a summary of initial City Council goals based on interviews conducted by the workshop facilitators and includes the feedback received during the February 21, 2023 “Goal Setting and Budget Kick-off” report provide to the Council. Those summarized priorities and goals provide a foundation for the upcoming goal setting workshop.

5-year Forecast

The City of National City Fiscal Year 2024-2028 Five-Year Forecast (Forecast) is a fiscal planning guide and serves as the framework for Council goal setting and the development of the Fiscal Year 2024 Adopted Budget for the General Fund. The purpose of the report is to provide an outlook of the City’s General Fund finances over the next five years.

The Forecast focuses on baseline revenues and expenditures, including updating forecasts for revenues and expenditures necessary to maintain the City’s service levels as reflected in the FY 2023 Adopted Budget. The Forecast was developed based on information available and known at the time of the preparation of the report, however, actual results may differ due to events that occur during the forecast period whose outcomes are unpredictable or cannot be quantified.

The Forecast is a planning tool to assist in goal setting and budget decisions related to the allocation of General Fund resources and should not be considered a budget. The Forecast

provides information at the start of the budget process to facilitate a discussion regarding the coming year's General Fund budget allocations.

To the extent projected expenditures exceed estimated revenues in any given year of the Forecast, the City will need to address these shortfalls through mitigating actions, which could include budget reductions, use of fund balance, or the pursuit of additional one-time and ongoing revenue options. Revenue projections in this forecast are based on current economic indicators, historical trends, industry research, and information from the City's Property Tax and Sales Tax consultant, and the knowledge of City staff. To the extent any of the underlying assumptions change, actual revenues could change significantly.

From a baseline perspective, the five year forecast shows revenues exceeding expenditures in Fiscal Year 2024 followed by a modest unfavorable gap in the second and third years of the period. However, as we consider the many additional priorities, services and operational needs of the City during the upcoming FY 2024 Budget Development process, those differences will likely change.

BASELINE GENERAL FUND REVENUES

The City's major General Fund revenue sources, sales tax, district & use tax, and property tax, represent 74.6 percent of the City's FY 2023 Adopted Budget for the General Fund. Each of these revenue sources are projected to increase throughout the forecast period. Consistent with the FY 2023 First Quarter Report, the forecast uses updated major revenue projections as the baseline for these estimates, which accounts for projected growth beyond what is budgeted in the FY 2023 Adopted Budget. The overall economic assumptions included in the report are in line with industry experts and the overall regional economy, including the City's sales and property tax consultant, HdL. In addition to the major revenue projections, the baseline projections for the General Fund's departmental revenue sources are based on various economic assumptions, known and anticipated events, and historical trend analyses.

Revenue	FY2024	FY2025	FY2026	FY2027	FY2028
Property Taxes	11,947,281	12,251,876	12,610,276	13,030,281	13,522,575
Sales and Use Taxes	39,631,000	40,663,825	41,680,421	42,722,431	43,790,492
Transient Lodging Tax	1,836,000	1,872,720	1,910,174	1,948,378	1,987,345
SA Residual Balance Distributions	3,062,000	3,134,000	3,275,000	3,371,000	3,454,000
Franchise Taxes	2,099,300	2,134,286	2,169,972	2,206,371	2,243,499
Cannabis Revenue	-	250,000	500,000	1,500,000	2,000,000
Licenses and Permits	1,435,299	1,452,905	1,470,864	1,489,181	1,507,864
Vehicle Code Fines	443,300	444,415	445,548	446,698	447,865
Investment Earnings	1,553,319	1,558,485	1,563,909	1,569,605	1,575,585
Development Services	716,805	731,141	745,764	760,679	775,893
Police and Fire Services to Neighboring Agencies	3,109,490	3,202,774	3,298,858	3,397,823	3,499,758
Other Revenues	1,015,216	1,015,216	1,015,216	1,015,216	1,015,216
Transfers from Other Funds	2,582,891	582,891	582,891	582,891	582,891
Total GF Revenue	69,431,900	69,294,535	71,268,892	74,040,554	76,402,983

MAJOR GENERAL FUND REVENUES

SALES & USE TAXES

The City's largest revenue source is sales and use taxes and represents 57.9 percent of the General Fund FY 2023 Adopted Budget. Sales tax is collected at the point of sale and remitted to the California Department of Tax and Fee Administration, which allocates tax revenue owed to

the City in monthly payments. Sales tax revenue also includes online sales from out-of-state businesses that meet a threshold in cumulative sales and delivers goods into California.

The Forecast for Sales Tax assumes growth based upon the updated FY 2023 projection for Sales Tax included in the FY 2023 First Quarter Report and economic assumptions available at the time of the preparation of this report.

PROPERTY TAX

Property Tax is the City's second largest revenue source representing 16.6 percent of the General Fund FY 2023 Adopted Budget. The primary component of the Property Tax category is the 1.0 percent levy on the assessed value of all real property within City limits. The Property Tax category also includes the Motor Vehicle License Fee (MVLFF) backfill payment, which is property tax revenue received from the State of California to replace the MVLFF that was repealed in 2004. The Forecast for Property Tax assumes growth based upon the updated FY 2023 projection for property tax included in the FY 2023 First Quarter Report and economic assumptions available at the time of the preparation of this report.

TRANSFERS FROM OTHER FUNDS

The City will use the final \$2 million from the American Rescue Plan Act funding in FY 2024 as an operating subsidy. The estimates in FY 2025 through FY 2028 are for overhead costs recovered by the General Fund for support provided to other funds.

OTHER GENERAL FUND REVENUES

Of the other general fund revenues, the most significant are residual balance revenues from the Successor Agency, the transient occupancy tax, franchise fees, licenses and permits, and revenue derived from providing public safety services to other communities. Growth assumptions are shown below:

- Residual Revenues from Successor Agency – due to anticipated growth in assessed property values within the former redevelopment area's boundaries and a flattening of the Successor Agency's obligations, this revenue stream is projected to increase from \$3.1 million in FY 2024 to \$3.5 million in FY 2028.
- Transient Occupancy Tax – Transient occupancy tax revenue is dependent upon room rental and occupancy rates. The model assumes a conservative 2% growth rate for each year of forecast.
- Franchise Fees – Franchise fees are paid by companies in certain industries that use City rights-of way to conduct their businesses. The City currently maintains franchise agreements with companies that provide cable television, solid waste, gas, and electric services. Franchise fees are expected to contribute approximately \$2.1 million in revenues in FY 2024 and grow 2% each year through FY 2028.
- Licenses and Permits – Licenses and permits comprise various fees charged to ensure that activities or endeavors by homeowners, residents, and businesses comply with applicable statutes. Examples include business licenses, building permits, and grading permits, and the anticipated cannabis license revenue. These revenues are estimated at \$1.4 million for FY 2024

and are expected to grow to \$3.5 million in FY 2028 when cannabis retail stores are fully operational.

- **Public Safety Services Provided to Other Communities** – The City is reimbursed by the Port of San Diego for the provision of police and fire protection services and by the Lower Sweetwater Fire Protection District for fire protection services. These revenues are estimated at \$3.1 million for FY 2024 and a 3% annual growth assumption has been used for the forecast.

BASELINE GENERAL FUND EXPENDITURES

General Fund expenditures are comprised of both personnel and non-personnel expenditures including Salaries and Benefits, Maintenance and Operations, Debt Service, Internal Service Fund charges, and Capital Expenditures. Baseline projections assume growth based upon the FY 2023 Adopted Budget with adjustments made for one-time expenditures.

Projections for ongoing non-personnel expenses are also included in the baseline projections and include anticipated adjustments required to maintain the City’s service levels as reflected in the FY 2023 Adopted Budget.

Expense	FY2024	FY2025	FY2026	FY2027	FY2028
Personnel Expenses					
Salaries (PT and FT)	25,669,250	26,439,327	27,232,507	28,049,482	28,890,967
Overtime	2,468,179	2,542,224	2,618,491	2,697,046	2,777,957
Worker's Comp	1,623,330	1,655,796	1,688,912	1,722,690	1,757,144
Health Insurance	3,322,100	3,388,542	3,456,312	3,525,439	3,595,947
CalPERS	9,544,816	10,800,908	10,899,712	10,949,242	11,067,725
Other Personnel Expenses	3,036,389	3,097,117	3,159,059	3,222,240	3,286,685
Operations and Maintenance					
Contract Services	2,343,892	2,390,769	2,438,585	2,487,357	2,537,104
Professional Services	1,693,074	1,726,935	1,761,474	1,796,703	1,832,637
Emergency Animal Treatment	530,965	546,894	563,301	580,200	597,606
Street Lights & Signals	515,000	530,450	546,364	562,754	579,637
Other Operations and Maintenance	2,253,376	2,298,443	2,344,412	2,391,300	2,439,126
Debt Service					
2017 LRB	196,087	202,163	208,430	214,892	221,554
2017 CREB	170,559	172,080	173,568	175,021	176,434
2017 RCS Note	147,380	147,380	147,380	0	0
Internal Service Funds					
Insurance Charges	1,334,805	1,361,501	1,388,731	1,416,505	1,444,835
Info. Syst. Maintenance Charge	2,474,519	2,548,755	2,625,218	2,703,974	2,785,093
Vehicle Charges (Leases, Maintenance)	2,285,047	2,353,598	2,424,206	2,496,932	2,571,840
Building Services Charges	2,525,820	2,601,594	2,679,642	2,760,031	2,842,832
Capital Expenditures					
CIP	2,000,000	2,200,000	2,400,000	2,600,000	2,800,000
Other Capital Expenditures	143,500	143,500	143,500	143,500	143,500
Operating Transfers Out	2,633,926	2,712,944	2,794,332	2,878,162	2,964,507
Other Expenses	135,000	135,000	135,000	135,000	135,000
Total GF Expenditures	67,047,011	69,995,920	71,829,135	73,508,471	75,448,132

PERSONNEL EXPENDITURES

Personnel expenditures represent 68.6 percent of the City's General Fund FY 2023 Adopted Budget. This category includes salaries and wages, the City’s annual pension payment, employee health benefits, workers’ compensation, and other fringe benefits. Baseline personnel expenses are projected to increase during the Forecast period, due to growth in salaries and wages resulting from current agreements between the City and its labor groups, increases in the

retirement contribution, and the amortization of pension obligation bonds issued for paying down a portion of the City's CalPERS unfunded liability. The forecast reflects that in FY 2024 the City will have no UAL payment to make to CalPERS (compared to \$2.7 million in FY 2023), but anticipates a resumption of that obligation in FY 2025 and beyond as a result of CalPERS's recent and anticipated investment results.

MAINTENANCE & OPERATIONS

Expenditures in maintenance and operations include contract services, professional services, as well as other operational costs such as training and uniforms. A 2% growth rate for each of the forecast years was assumed for these items. Also included in this category are costs related to emergency animal treatment and street light and signals which assumed a 3% increase from FY 2024 through FY 2028.

DEBT SERVICE

Projections in the debt services category are fixed costs based on the City's existing debt service schedules. No growth rate is assumed for this category.

INTERNAL SERVICE FUNDS

A 2% growth rate was assumed in the forecast model for the City's liability insurance costs, while a 3% increase was assumed for information technology, vehicle leases and maintenance, and building service charges.

CAPITAL EXPENDITURES

New Capital Improvement Project funding has been estimated at \$2 million dollars for FY 2024 with the amount growing by \$200,000 each year to reach \$2.8 million in FY 2028. The amounts for Capital Improvement expenditures are restricted to those needed to meet matching requirements for transportation infrastructure, maintain storm drains, and perform major maintenance at City facilities.

TRANSFERS OUT

Transfers out from the General Fund include operating subsidies to the Library Fund, Parks Maintenance Fund, and the Nutrition Center Fund. While the amount of these subsidies are dependent upon the expenditures and revenues of each fund during a given year, a growth rate of 3% has been assumed in the forecast. This category also includes a transfer to the Post-Employment Benefit Fund for retiree health benefits.

GENERAL FUND REVENUE / EXPENDITURE SUMMARY

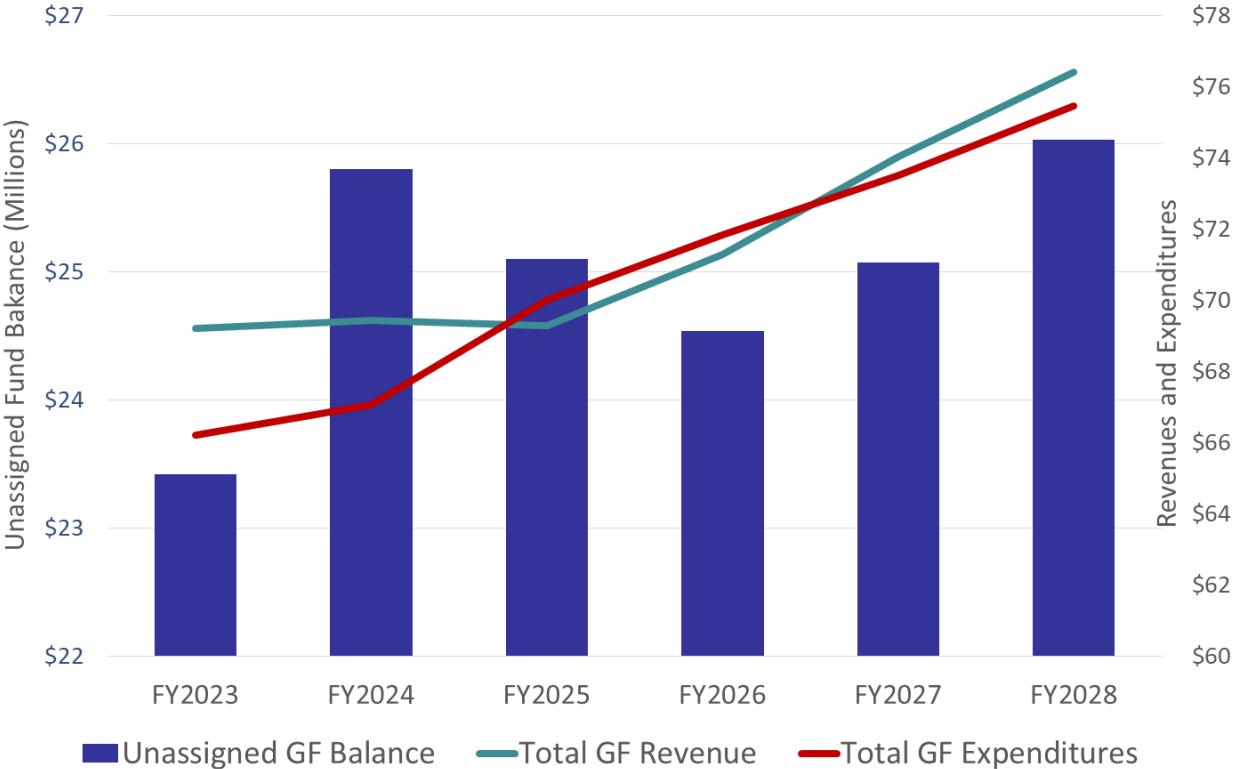
Revenue	FY2024	FY2025	FY2026	FY2027	FY2028
Estimated General Fund Revenues	69,431,900	69,294,535	71,268,892	74,040,554	76,402,983
Estimated General Fund Expenditures	67,047,011	69,995,920	71,829,135	73,508,471	75,448,132
Net Increase / (Decrease)	2,384,890	(701,385)	(560,243)	532,083	954,850
Estimated Unassigned Fund Balance	25,801,753	25,100,368	24,540,125	25,072,207	26,027,057

NET INCREASE/DECREASE AND UNASSIGNED FUND BALANCE

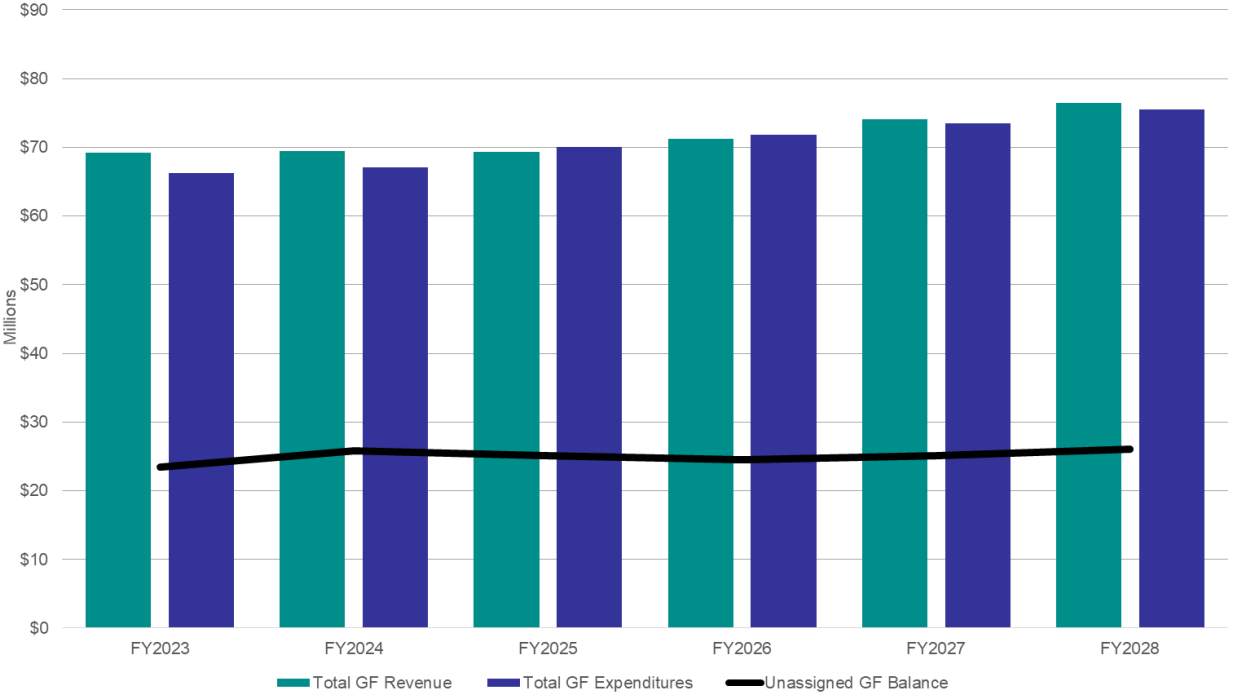
The net increase/(decrease) line shows the impact on unassigned fund balance as measured by the difference between estimated revenues and estimated expenditures. The net increase shown in the FY2024 column is primarily attributable to a combination of no UAL payment to CalPERS for that year and the final \$2.0 million in ARPA funding being included in operating revenues. The unassigned fund balance is the total of spendable amounts not otherwise restricted or committed and which is available for augmenting or meeting reserve targets or for use at Council's discretion. The net impact on unassigned fund balance from projected expenditures and estimated revenues throughout the forecast period is represented graphically below.

As of the beginning of Fiscal Year 2023 the City had unassigned fund balance of \$20.4 (unaudited). As this five year forecast was being developed, projections for some of the more significant FY 2023 revenues were updated as well. While both revenues and expenditures will undergo a thorough, formal mid-year status review, preliminary estimates are showing a nearly \$3.0 million positive impact on fund balance by FY 2023's end. That positive result, coupled with the \$2.4 million net increase shown in the table above, results in the estimated \$25.8 million of unassigned fund balance in the FY 2024 column. Each succeeding year's estimated fund balance is calculated with respect to that year's impact on the prior year's estimate.

Projected Revenues, Expenditures, and Unassigned General Fund Balance



Projected Revenues, Expenditures, and Unassigned Fund Balance



CONCLUSION

The purpose of the forecast is to provide an overview of the City's General Fund finances over the next five fiscal years and to serve as a framework for the development of the FY 2024 Adopted Budget. It is a long-range fiscal planning guide that focuses on baseline revenues and expenditures to help guide future fiscal and policy decisions. The forecast was developed based on information available and known at the time of the preparation of the report. Staff will also integrate the outcomes of the goal setting workshop with the intent to align **programs, projects and activities** to further Council priorities, consistent with budget, staffing and workloads.

Based on the forecast for baseline expenditures and revenues, growth in expenditures is anticipated to outpace the growth in revenues in FY 2025 and FY 2026. Forecasted baseline revenue growth is not anticipated to exceed forecasted baseline expenditure growth until FY 2027 and FY 2028. The projections included in the forecast show the importance of developing multi-year strategies to correct structural deficits, where ongoing expenditures exceed ongoing revenues. The projected shortfalls also demonstrate the need for additional ongoing available resources to support the critical needs of the City.

After the adoption of the FY 2024 budget, the five-year forecast will be updated using FY 2024 as the base year for the forecast period of FY 2025 through FY 2029.

PUBLIC NOTIFICATION:

Agenda Report posted within 72 hours of meeting date and time in accordance with Brown Act.

EXHIBIT:

Exhibit 1 – PowerPoint Presentation