

The following document is an excerpt from a Staff Report revising the City's Initial Budget for the 2020-21 Fiscal Year, presented to the City Council on June 1, 2020.

General Fund Five-Year Financial Forecast

At the May budget study session, staff presented three scenarios to depict possible fiscal outcomes for the City's General Fund over the next five years. Lacking a more solid basis for revenue estimates going forward, these scenarios utilize the most recent revenue projections for the upcoming 2020-21 fiscal year, but maintain the same growth projections as previously defined each scenario. All three scenarios include some of the same assumptions:

- The CalPERS rate of return for the current fiscal year is 0 percent, and CalPERS returns match their assumed rate of 7 percent for subsequent plan years. Due to how CalPERS investment losses are amortized, the loss will be ramped up to full payments over the next five years, for a total of 20 years. This is reflected in the growth of pension costs over the five-year period covered by the forecast.
- Not included in expenses, contributions to the § 115 Pension Trust Fund with PARS continue as per the City's pension funding plan; nor are funds withdrawn to pay the then-current employer's required contributions to the CalPERS plan.
- Operating costs (including payroll costs other than pensions) remain fairly stable across all scenarios. Different rates of *growth* are applied in the various scenarios (from 2-5 percent, with Scenario C exhibiting the lowest rate of growth), but more aggressive actions would be taken to cut costs or increase revenues if needed to protect the City's financial viability.
- Property tax revenues are expected to stay relatively solid across all scenarios.
- Funding for the El Camino Real Undergrounding Project is not identified. Although there are limited funds available to support the project through the Rule 20A program, the City's share of this project is estimated to be \$24 million, with initial funding required in fiscal year 2023-24.

Scenario A assumes that the spread of the virus will slow, as businesses and individuals adapt swiftly to safer work and market places. The anticipated recovery in this scenario is modest early in the fiscal year, but grows steadily through the holidays and into the spring and summer of 2021. Tax revenues will gradually return to more normal levels, allowing for a partial replenishment of reserves in the outer years of the forecast. Although operating expenditures are contained to the extent reasonable, the need for capital spending will resume, requiring further restriction of capital spending and/or draws on the City's Capital Investment Reserves. Such a draw would leave the City short of the anticipated \$15 million in matching funds for the Broadway Grade Separation project, which will be needed as early as fiscal year 2022-23. This scenario, deemed to be the most probable of the three five-year forecasts, has General Fund revenues almost fully recovered by the end of the fifth year.

General Fund Five-Year Forecast
Scenario A – Most Probable

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	<i>Estimates</i>	<i>Proposed</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Revenue Categories						
Property Taxes	23,435,600	25,136,000	26,274,000	27,469,000	28,724,000	29,778,000
Sales Tax (including Measure I)	14,230,000	12,000,000	14,400,000	15,120,000	15,574,000	16,041,000
Transient Occupancy Tax	20,050,000	14,000,000	18,200,000	20,930,000	23,023,000	24,174,000
Other Taxes - Franchise Tax	1,642,000	1,641,200	1,672,000	1,687,000	1,703,000	1,720,000
Other Taxes - Business Licenses	865,000	730,000	803,000	811,000	831,000	856,000
Other Taxes - Transfer Tax	360,000	400,000	460,000	483,000	497,000	502,000
Other Taxes - State HOPTR	60,000	60,000	63,000	66,000	67,000	68,000
Licenses & Permits	79,500	78,200	82,000	86,000	88,000	90,000
Fines, Forfeitures & Penalties	608,000	560,000	728,000	750,000	773,000	796,000
Use of Money & Property	130,000	80,000	84,000	88,000	90,000	92,000
Charges for Services	5,135,000	5,007,000	5,758,000	6,334,000	6,524,000	6,720,000
Other Revenue	30,000	30,000	32,000	34,000	35,000	36,000
Federal & State Subventions	140,000	143,000	150,000	158,000	161,000	164,000
Interest Income	2,400,000	1,563,000	2,345,000	2,580,000	2,709,000	2,844,000
Total Revenues	69,165,100	61,428,400	71,051,000	76,596,000	80,799,000	83,881,000
Expenditure Categories						
Salaries & Wages	(20,207,319)	(20,394,956)	(21,131,000)	(21,765,000)	(22,418,000)	(23,090,000)
Benefits	(12,648,341)	(13,376,968)	(14,133,000)	(15,138,000)	(15,966,000)	(16,864,000)
Operating Costs	(25,445,119)	(24,789,910)	(25,708,000)	(26,664,000)	(27,661,000)	(28,701,000)
Internal Services	(4,170,252)	(4,570,045)	(4,753,000)	(4,896,000)	(5,043,000)	(5,194,000)
Capital Outlay	(258,500)	(163,000)	(250,000)	(258,000)	(266,000)	(274,000)
Total Expenditures	(62,729,531)	(63,294,879)	(65,975,000)	(68,721,000)	(71,354,000)	(74,123,000)
Operating Revenue	6,435,569	(1,866,479)	5,076,000	7,875,000	9,445,000	9,758,000
Transfer In (Out)						
Transfer to CIP Project Funds	(9,185,000)	(3,155,000)	(9,405,000)	(7,435,000)	(6,155,000)	(5,835,000)
Transfer to Debt Service Fund	(4,708,763)	(2,728,338)	(3,580,400)	(3,600,700)	(3,623,500)	(3,651,060)
Transfers In (Out) - other funds	2,400,319	2,573,550	1,693,525	1,723,779	1,755,120	1,790,059
Transfer to Capital Investment	(6,500,000)	-	-	-	-	-
Change in Fund Balance before Adjustments	(11,557,875)	(5,176,267)	(6,215,875)	(1,436,921)	1,421,620	2,061,999
Adjustments						
Transfer to Pension 115 Trust	(2,957,000)	(2,250,000)	(1,867,000)	(1,285,000)	(876,000)	(503,000)
Net Surplus / (Deficit)	(14,514,875)	(7,426,267)	(8,082,875)	(2,721,921)	545,620	1,558,999

FUND BALANCE	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
General Fund Beginning Bal.	49,167,751	37,609,876	32,433,609	31,217,734	32,553,813	33,975,433
General Fund Ending Bal.	37,609,876	32,433,609	26,217,734	29,780,813	33,975,433	36,037,432
Assigned Balance:	19,100,000	17,243,000	19,552,000	20,883,000	21,892,000	22,631,000
Econ. Stability Reserve @ 24%	16,600,000	14,743,000	17,052,000	18,383,000	19,392,000	20,131,000
Catastrophic Reserve (\$2 mil.)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Contingency Reserve (\$500,00)	500,000	500,000	500,000	500,000	500,000	500,000
PARS restricted cash	10,416,442	12,666,442	14,533,442	15,818,442	16,694,442	17,197,442
Unassigned Fund Balance	8,093,434	2,524,167	(7,867,708)	(6,920,629)	(4,611,009)	(3,791,010)

Scenario A – Most Probable (continued)

