

ATTACHMENT B – GENERAL FUND LONG-TERM FORECAST

Introduction

The long-term forecast is an important planning tool for the City. While the City adopts annual budgets that must be balanced, the outer years of the forecast are presented to show the City's financial condition and availability of resources into the future absent intervention. The forecast is generally updated twice annually and was last updated with the FY 2024-25 Supplemental Budget. This intervening update is intended to reflect Council action on July 2nd, 2024 to adopt new user fees, which is estimated to result in \$500k of additional fee revenue in the current fiscal year, and \$1m of additional revenue in future years. While the revised forecast below reflects these estimates, it is important to note that fee revenue is driven as much by the volume of services provided as it is by the fees themselves.

The revised forecast is included in the Year End Budget Report to provide context for the Council's review of the survey tool that will be used to gather community input as part of the upcoming public engagement process for development of the 2025-27 Financial Plan. As discussed during the Third Quarter Report and FY 2024-25 Supplemental Budget presentations, the long-term forecast for the General Fund projects deficits in the coming years. While staff does not expect that budget reductions will be necessary, it will be important that expenditure growth is limited in future years in order to incrementally reduce the forecasted budget deficits. The Council's approval of updated user fees helps to reduce the forecasted deficit, but there are other considerations that are not currently included in the forecast, including macroeconomic impacts to revenue, upcoming labor negotiations, and expectation of service expansion over the coming years to serve our growing community (discussed in more detail below).

All forecasts of future results are reliant on assumptions. Significant assumptions in this forecast include:

- **Continued Economic Growth:** The City benefits from diversified revenue streams. However, many of these revenue streams rely on consumer spending and tourism and are therefore cyclical in nature. This forecast does not contemplate a recession or slowdown in spending.
- **3% cost of living adjustments:** All staffing costs except pension costs are assumed to grow at three% per year. This is consistent with the forecast presented to Council with the FY 2024-25 Supplemental Budget, but represents an increase from the 2% inflator that was previously used.
- **Additional Discretionary Payments (ADPs) to CalPERS:** We continue to forecast \$2m per year in ADPs. This amount was established with the Fiscal Health Response Plan in 2018 and has not changed to reflect increased staffing costs due to a significant increase in employee headcount over the last several years. This means that progress in paying down our unfunded pension liabilities is projected to slow, and consideration should be given to whether or not the \$2m ADP amount should be increased commensurate with increasing staffing costs.

Other possible changes to be reflected in the future when more information is available include:

- **Revenue Forecasts:** Our consultants provide forecasts for our major revenue streams annually. These forecasts updates reflect the constantly changing macroeconomic environment.
- **Labor Negotiations:** The existing agreements and resolutions with the City's three non-safety bargaining units (San Luis Obispo City Employees' Association, Unrepresented Management, and Unrepresented Confidential Employees) will expire on June 30, 2025. Should additional adjustments be necessary to address salaries and benefits for these groups, additional costs will need to be factored into the forecast. For context, a 1% percent increase to budgeted General Fund salary and benefit costs for these three groups in FY 2024-25 is shown in the table below:

ATTACHMENT B – GENERAL FUND LONG-TERM FORECAST

Bargaining Unit	1% of General Fund Cost
CEA – City Employees’ Association	\$141,278
CONF – Confidential	\$10,549
MME – Management Employee	\$145,728

- **Costs to Support Growing Population:** The costs to serve a growing population are expected to put significant pressure on the City’s finances. These costs are expected to include new capital investments like neighborhood parks and increased ongoing operating expenditures to operate and maintain those investments. Staff has begun an effort to identify and estimate those costs and whether population growth will deliver sufficient additional revenues to fund them.
- **Emergency Storm Expenditure Reimbursement:** The City is eligible to receive a maximum of 93.75% of eligible costs incurred as a result of the Winter 2023 storms from state and federal agencies, and it is assumed that reimbursements will be received within 12 months of formally submitting the necessary filings. The first projects were initially submitted in October 2023 and we will soon be able to test this assumption. As noted in Attachment A, the Federal Emergency Management Agency (FEMA) is currently in a holding pattern due to the Disaster Relief Fund which supports FEMA’s public assistance program being nearly expended. While this is not expected to put the City’s projects at risk, it may delay obligation of funding for projects.

While this updated forecast does show positive progress on closing the projected deficit, staff still expects expenditures to grow more quickly than revenues and some corrective action will be necessary. This forecast reflects only one change from the version presented with the Supplemental Budget, which is the addition of \$500k in the current year and \$1m annually going forward for the estimated impact of the new user fee rates adopted by Council in July. Staff will present more comprehensive updates to the forecast with the Financial Plan development process.

ATTACHMENT B – GENERAL FUND LONG-TERM FORECAST

Table 1. Long-Term Forecast

	Financial Plan						
	(A) Actual 2022-23	(B) Budget 2023-24	(C) Budget 2024-25	(D) Projected 2025-26	(E) Projected 2026-27	(F) Projected 2027-28	(G) Projected 2028-29
General Fund Five-Year Forecast (In Thousands)							
Tax & Franchise Revenue							
1 Sales & Use Tax	\$ 52,927	\$ 53,391	\$ 56,384	\$ 57,903	\$ 59,640	\$ 61,370	\$ 63,211
2 Property Tax	22,216	22,864	23,446	24,323	25,052	25,679	26,192
3 Transient Occupancy Tax	11,037	10,704	10,586	10,798	11,014	11,234	11,459
4 Utility Users Tax	6,904	6,332	6,623	6,755	6,890	7,028	7,169
5 Franchise Fees	2,350	2,000	2,092	2,134	2,176	2,220	2,264
6 Business Tax Certificates	3,281	3,252	3,317	3,384	3,451	3,520	3,591
7 Cannabis Tax	1,128	1,100	1,100	1,400	1,428	1,457	1,486
8 Total Tax & Franchise Revenue	\$ 99,842	\$ 99,643	\$ 103,548	\$ 106,696	\$ 109,652	\$ 112,507	\$ 115,371
Fees for Service & Other Revenue							
9 Police Services	\$ 753	\$ 745	\$ 612	\$ 624	\$ 637	\$ 649	\$ 662
10 Fire Services	1,613	1,648	1,578	1,609	1,642	1,674	1,708
11 Development Review	6,527	6,276	6,585	6,717	6,851	6,988	7,128
12 Parks & Recreation	1,868	2,026	2,069	2,110	2,152	2,195	2,239
13 Business Licenses	523	459	468	477	487	497	507
14 Cannabis Licenses	147	171	233	237	242	247	252
15 Other Revenues	3,708	2,911	2,319	2,376	2,392	2,412	2,429
16 Subventions & Grants	1,429	1,006	682	440	441	442	442
17 <i>Additional User Fee Revenue</i>			500	1,000	1,000	1,000	1,000
18 <i>Storm Reimbursement - ESTIMATE</i>			8,732	-	-	-	-
19 Total Fees & Other Revenue	\$ 16,568	\$ 15,241	\$ 23,778	\$ 15,591	\$ 15,844	\$ 16,105	\$ 16,367
20 Total Revenue	\$ 116,410	\$ 114,884	\$ 127,326	\$ 122,287	\$ 125,496	\$ 128,612	\$ 131,738
Use of Funds							
21 Staffing	\$ 65,544	\$ 67,422	\$ 71,483	\$ 74,379	\$ 76,679	\$ 79,126	\$ 82,348
22 Contract Services	9,285	11,066	9,061	8,720	8,895	9,073	9,254
23 Other Operating Expenditures	9,471	11,097	10,193	10,499	10,709	10,923	11,142
24 Cost Allocation	(4,462)	(5,419)	(5,368)	(5,475)	(5,584)	(5,696)	(5,810)
25 <i>SOBC Recommendations</i>			485	218	224	231	238
26 <i>Fire Station 5 - ESTIMATE</i>				1,062	700	1,813	1,817
27 <i>Storm Expenditures - ESTIMATE</i>	3,646	5,354					
28 <i>Mid-Year One-time Budget Recommendations</i>		4,471	3,804				
29 Total Operating Expenditure	\$ 83,484	\$ 93,991	\$ 89,659	\$ 89,403	\$ 91,623	\$ 95,470	\$ 98,989
30 Debt Service	\$ 1,992	\$ 1,854	\$ 1,758	\$ 1,761	\$ 1,550	\$ 1,549	\$ 1,550
31 Capital	27,056	29,728	27,199	27,748	28,288	28,843	29,408
32 Transfers Out/(In)	2,085	1,490	1,086	1,486	1,844	2,251	2,352
33 Total Expenditure	\$ 114,618	\$ 127,062	\$ 119,702	\$ 120,397	\$ 123,305	\$ 128,113	\$ 132,300
34 Revenue Over/(Under) Expenses	\$ 1,792	\$ (12,178)	\$ 7,624	\$ 1,890	\$ 2,192	\$ 500	\$ (562)
35 Beginning Fund Balance	\$ 40,746	\$ 40,538	\$ 26,360	\$ 31,984	\$ 31,873	\$ 32,065	\$ 30,565
36 CalPERS ADP	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
37 Ending Fund Balance	\$ 40,538	\$ 26,360	\$ 31,984	\$ 31,873	\$ 32,065	\$ 30,565	\$ 28,003
38 General Fund Reserve	13,727	10,826	14,587	15,046	15,354	15,974	16,367
39 Revenue Stabilization Reserve	2,000	2,000	2,000	2,000	2,000	2,000	2,000
40 115 Pension Trust Fund	2,000	2,000	2,000	2,000	2,000	2,000	2,000
41 Committed or Restricted	14,536	11,534	11,000	10,500	10,500	10,500	10,500
42 Undesignated Fund Balance	\$ 8,275	\$ 0	\$ 2,397	\$ 2,327	\$ 2,211	\$ 91	\$ (2,864)
43 <i>Reserve funded level (Policy=20%)</i>	20%	14%	20%	20%	20%	20%	20%