

STAFF REPORT*CITY OF OCEANSIDE*

DATE: January 24, 2024
TO: Honorable Mayor and City Councilmembers
FROM: Financial Services Department
SUBJECT: **GENERAL FUND FIVE-YEAR FINANCIAL FORECAST**

SYNOPSIS

Staff submits the FY 2024-25 through FY 2028-29 General Fund Five-Year Financial Forecast for review and requests direction to proceed with developing a fiscally sustainable budget strategy.

BACKGROUND

The financial forecast is a forward look at the City of Oceanside's General Fund revenues and expenditures. Its purpose is to identify financial trends, shortfalls and issues so the City can proactively address them. It does so by projecting the fiscal results of continuing the City's current service levels, policies, and any new or anticipated changes to the City's revenue streams or expenses. It provides a snapshot of what the future will look like as a result of decisions made in the recent past. It also recaps historical data to indicate the financial status of the past. This forecast includes historical data to offer a comparison to previous financial statuses.

If the results are positive, the balance remaining is available to fund new initiatives and projects; if negative, it shows the likely budget gap. Throughout the five-year forecast period, staff is projecting a positive balance, with a projected surplus of \$2.94M forecast for Fiscal Year 2024-25, based on projected revenues of \$216.02M and expenditures of \$213.08M.

It is important to stress that this financial forecast is not a budget, nor is it a proposed financial plan for achieving City or City Council objectives. The forecast is a projection based on currently available economic data, consultant reports, and staff analysis of current trends; it represents a staff consensus on likely revenues and expenses.

Year one of the forecast is used to develop the general fund annual operating budget, which will be presented to City Council during the budget workshop on April 17th. The final budget adoption is schedule for June 5th.

The Measure X revenues and expenditures are placed in a separate fund and are not included in the Five-Year Forecast.

FISCAL IMPACT

There is no fiscal impact.

INSURANCE REQUIREMENTS

Does not apply.

COMMISSION OR COMMITTEE REPORT

Does not apply.

CITY ATTORNEY'S ANALYSIS

Does not apply.

RECOMMENDATION

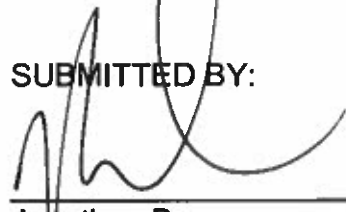
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PREPARED BY:



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Financial Services Director

SUBMITTED BY:



XOR Jonathan Borrego
City Manager

REVIEWED BY:

Michael Gossman, Assistant City Manager



ATTACHMENTS:

A – General Fund Five-Year Financial Forecast

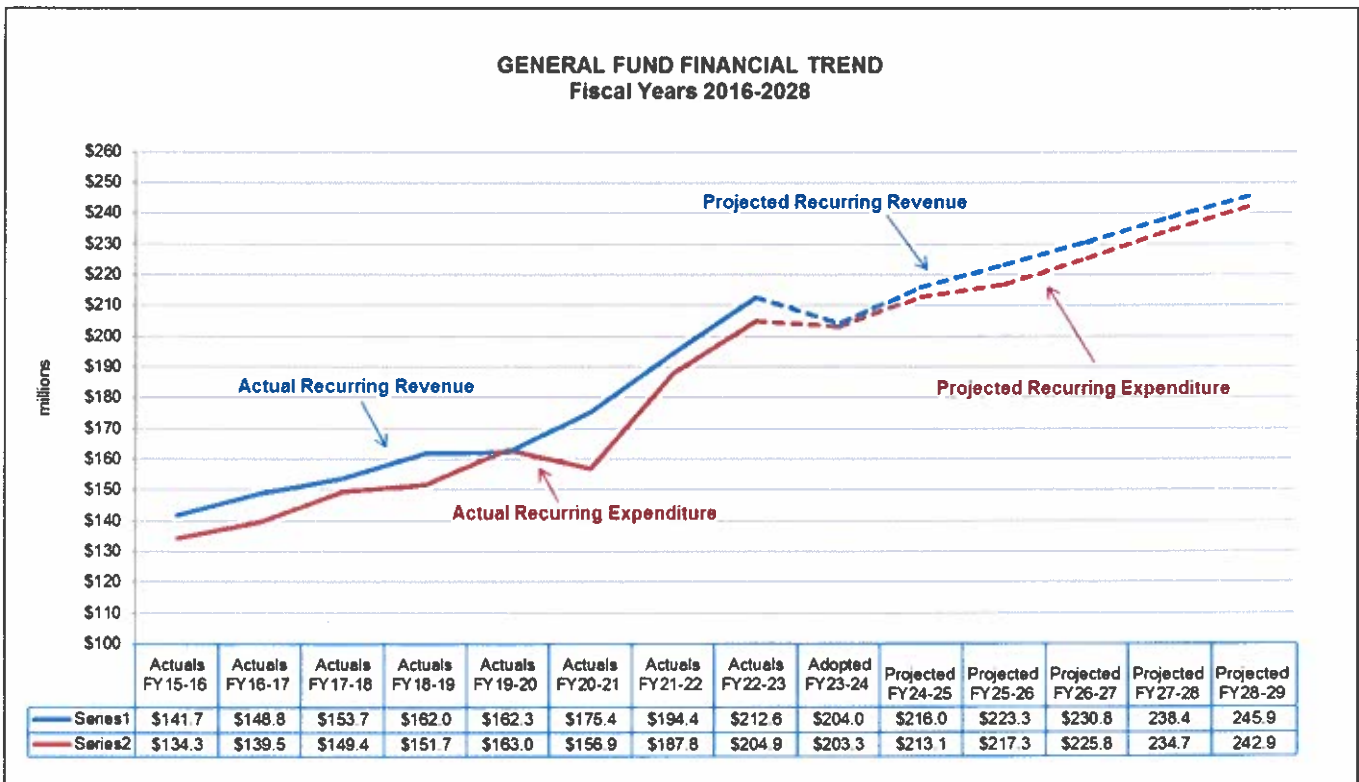
GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

PURPOSE OF THE FORECAST

The purpose of the financial forecast is to anticipate forthcoming trends, shortfalls, and concerns within the City of Oceanside's General Fund revenues and expenditures. This proactive approach enables the City to address these matters preemptively. The forecast achieves this by projecting future fiscal outcomes based on the continuation of the City's present service levels and policies. It provides insight into the prospective impact of recent decisions and also presents historical data, reflecting the financial state of the past.

Positive results signify a surplus that can be allocated towards new initiatives, while negative outcomes highlight potential budgetary gaps. The National Advisory Council on State and Local Budgeting (NACSLB) has endorsed both revenue and expenditure forecasting as part of their Recommended Budget Practices.

It is crucial to emphasize that this financial forecast should not be mistaken for a budget, nor is it a proposed financial strategy aimed at achieving City or Council objectives.



GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

Table 1 shows the next five years as forecasted in January 2024. The FY 2024-25 General Fund forecast includes \$216.02M in revenues and \$213.08M in expenditures with an anticipated surplus of \$2.94M.

Table 1
General Fund Five-Year Forecast Summary

| <i>in millions</i> | Adopted Budget FY23-24 | Forecast Year 1 FY24-25 | Forecast Year 2 FY25-26 | Forecast Year 3 FY26-27 | Forecast Year 4 FY27-28 | Forecast Year 5 FY28-29 |
|---|---------------------------------------|--|--|--|--|--|
| RECURRING REVENUES | | | | | | |
| Property Taxes | \$ 85.07 | \$ 89.74 | \$ 94.00 | \$ 98.61 | \$ 103.47 | \$ 108.64 |
| Sales & Use Taxes | 29.38 | 29.25 | 30.10 | 30.97 | 31.84 | 32.73 |
| Transient Occupancy Tax | 12.49 | 13.58 | 13.98 | 15.02 | 15.77 | 16.07 |
| Beachfront TOT | 2.15 | 2.86 | 2.95 | 3.04 | 3.13 | 3.22 |
| All Other Taxes | 4.59 | 4.90 | 4.96 | 5.02 | 5.09 | 5.15 |
| Franchise Fees | 4.34 | 4.40 | 4.37 | 4.34 | 4.32 | 4.30 |
| Licenses & Permits | 4.50 | 5.47 | 5.48 | 5.48 | 5.48 | 5.48 |
| Fines & Forfeitures | 3.93 | 4.09 | 4.09 | 4.09 | 4.09 | 4.09 |
| Use of Money & Property | 7.76 | 7.86 | 7.96 | 8.06 | 8.16 | 8.27 |
| Intergovernmental | 0.52 | 0.56 | 0.56 | 0.56 | 0.56 | 0.56 |
| Ambulance Billing | 7.51 | 8.00 | 8.98 | 9.16 | 9.43 | 9.71 |
| Charges for Services | 15.73 | 18.23 | 18.23 | 18.23 | 18.23 | 18.23 |
| Transfers In & Other Revenues | 26.05 | 27.08 | 27.61 | 28.21 | 28.81 | 29.47 |
| TOTAL RECURRING REVENUES | \$ 204.02 | \$ 216.02 | \$ 223.27 | \$ 230.79 | \$ 238.38 | \$ 245.92 |
| RECURRING EXPENDITURES | | | | | | |
| Personnel | | | | | | |
| Compensation Cost | 76.50 | 80.08 | 84.17 | 87.91 | 91.73 | 95.28 |
| Overtime | 7.64 | 7.63 | 7.65 | 7.61 | 7.63 | 7.65 |
| PERS | 29.15 | 33.00 | 34.98 | 37.19 | 39.53 | 42.03 |
| Pension Bond | 4.38 | 4.55 | 0.26 | - | - | - |
| Health Insurance | 11.20 | 11.29 | 12.10 | 12.60 | 13.15 | 13.67 |
| Workers Comp | 5.63 | 5.86 | 6.16 | 6.44 | 6.73 | 7.01 |
| Other Benefits | 4.16 | 4.20 | 4.34 | 4.46 | 4.58 | 4.70 |
| <i>Personnel Cost Subtotal</i> | \$ 138.65 | \$ 146.60 | \$ 149.66 | \$ 156.21 | \$ 163.35 | \$ 170.34 |
| Maintenance & Operations | 31.01 | 32.50 | 32.90 | 33.48 | 34.08 | 34.68 |
| Rebate for OBR | 2.15 | 2.10 | 2.16 | 2.22 | 2.29 | 2.36 |
| Rebate for Carmax | 0.86 | 0.59 | 0.61 | 0.63 | 0.65 | 0.67 |
| Transfers Out & Internal Service | 29.68 | 31.30 | 32.02 | 33.22 | 34.34 | 34.86 |
| TOTAL RECURRING EXPENDITURES | \$ 202.34 | \$ 213.08 | \$ 217.35 | \$ 225.77 | \$ 234.71 | \$ 242.92 |
| Transfer to Capital Improvement Program | \$ 0.95 | \$ - | | | | |
| Surplus/(Shortfall) | \$ 0.73 | \$ 2.94 | \$ 5.92 | \$ 5.02 | \$ 3.67 | \$ 3.00 |

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

Table 2
General Fund Revenues Projected Percent Changes

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| | FY24-25 | FY25-26 | FY26-27 | FY27-28 | FY28-29 |
| Property Taxes | 5.5% | 4.7% | 4.9% | 4.9% | 5.0% |
| Sales & Use Taxes | -0.4% | 2.9% | 2.9% | 2.8% | 2.8% |
| Transient Occupancy Tax | 8.7% | 3.0% | 7.4% | 5.0% | 1.9% |
| Beachfront TOT | 33.2% | 3.0% | 3.0% | 3.0% | 3.0% |
| All Other Taxes | 6.8% | 1.2% | 1.2% | 1.4% | 1.2% |
| Franchise Fees | 1.4% | -0.7% | -0.7% | -0.5% | -0.5% |
| Licenses & Permits | 21.6% | 0.2% | 0.0% | 0.0% | 0.0% |
| Fines & Forfeitures | 4.1% | 0.0% | 0.0% | 0.0% | 0.0% |
| Use of Money & Property | 1.3% | 1.3% | 1.3% | 1.2% | 1.3% |
| Intergovernmental | 7.7% | 0.0% | 0.0% | 0.0% | 0.0% |
| Ambulance Billing | 6.5% | 12.3% | 2.0% | 2.9% | 3.0% |
| Charges for Services | 15.9% | 0.0% | 0.0% | 0.0% | 0.0% |
| Transfers In & Other Revenues | 4.0% | 2.0% | 2.2% | 2.1% | 2.3% |
| TOTAL RECURRING REVENUES | 5.9% | 3.4% | 3.4% | 3.3% | 3.2% |

ECONOMIC OUTLOOK

Recent economic growth can be noted by the increase in the National Gross Domestic Product (GDP). According to the Bureau of Economic Analysis, the GDP in the third quarter of 2023 increased at an annual rate of 4.9 percent compared to 3.2 percent in the third quarter of 2022. The increase is primarily due to increases in consumer spending, inventory investment, exports, state and local government spending, federal government spending, residential fixed investment, and nonresidential fixed investment. For the next couple years, the US economy is expected to continue modestly growing coupled with the gradual easing of inflation. The labor market is expected to remain stable, despite slowing job growth.

According to the Beacon Economics Outlook, the data from 2023 indicates that the current state of the US economy is stronger than a year earlier, as evidenced by solid GDP growth, continuous job growth, sustained high levels of industrial production, rising profits and wages, and relatively stable US debt markets signify this strength. Despite these positive indicators, the Beacon Economics economists noted that they are less optimistic today than they were 12 months ago. "The Fed's excessive \$5 trillion in quantitative easing and the 40% jump in the money supply that resulted, created massive government deficits and a large asset bubble. The U.S. economy has weathered rising interest rates over the last year largely because of these imbalances, but they also imply that inflationary pressures are not behind us."

The October 2023 UCLA Anderson Forecast foresees a weak US economy in 2024 but not a recession. Similarly, they foresee that the California economic outlook to be much the same.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

“The state’s economy keeps chugging along, thanks in part to consumers who want to spend and stimulative fiscal policy” ... and they noted that they do not anticipate a recession in the near term. The UCLA Anderson’s economists explained that “In spite of the higher interest rates, the continued demand for a limited housing stock, coupled with state policies inducing new homebuilding, should result in the beginning of a recovery this year followed by solid growth in new home production thereafter.”

This Five-Year Forecast was developed keeping these economic indicators and industry expert forecasts in mind. For example, the forecast was developed using a consumer price index (CPI) of 3.5% for material and supplies budgets for FY 2024-25, due to expected continued inflation. Materials and supplies budgets were increased by 5% and 3.5% in the last two years to keep up with inflation as well.

It is important to note that these forecasts are for the overall economy and may not mirror the forecast for Oceanside. Oceanside continues to grow with strong home sales and construction of new commercial properties and hotels which will result in consistent incremental increases in property tax and transient occupancy tax over the next several years.

KEY POINTS

- The financial forecast does not address any future adverse budget impacts from State or Federal actions beyond the CalPERS July 2023 Actuarial Report.
- For year one, as a percent of compensation, Safety personnel CalPERS costs as a percentage of salary is 64% and Miscellaneous personnel CalPERS costs as a percentage of salary is 36%.
- Assumptions used to forecast revenue and expenditures are noted in a separate section of the report.
- The financial forecast is updated on an annual basis to accommodate adjustments in economic trends and operational costs.

DEMOGRAPHIC TRENDS

Population - Oceanside's 2023 population per the California Department of Finance is 171,063.

Inflation — The City monitors the Consumer Price Index for All Urban Consumers (CPI-U) for San Diego, CA, as reported by the US Department of Labor. It is a measure of change in prices paid by consumers for goods and services and reflects spending patterns. The most recent data released in November 2023 shows the CPI at 3.2 percent at the end of October 2023. The CPI has decreased compared to 7.1 percent the previous year in November 2022. The major decreases were energy prices, specifically fuel and utility gas service, and used vehicles.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

Consumer Confidence Index — This index is a barometer of the health of the US economy from the perspective of the consumer. The index is based on consumers' perceptions of current business and employment conditions, as well as their expectations for six months hence regarding business conditions, employment and income. The Consumer Confidence index as of November 2023 is at 102 which is an increase from 99.1 from the previous month.

Unemployment Rate – According to the Employment Development Department, as of October 2023, Oceanside's unemployment rate is at 4.2 percent, the same rate as the San Diego unemployment rate of 4.2 percent. The State of California unemployment rate is 4.8 percent.

REVENUES

Property Tax – The City of Oceanside contracts with HdL Companies for property tax management services. HdL Companies reports the median sale price of a single-family home in Oceanside at \$805,000 in 2023, a 1.83 percent decrease from 2022. However, Oceanside continues to experience commercial and residential construction growth. The City's taxable assessed value increased by 7% in FY 2023-24, or \$2.1 billion, from FY 2022-23. Forecasted revenues based on market trends and timing of future construction project an average increase of 5% each year of the next five years.

Sales & Use Tax –The City of Oceanside contracts with HdL Companies for sales tax management services. Oceanside's FY 2022-23 sales increased 3.45 percent above the prior year. Looking ahead statewide, sustained sales tax growth is still anticipated through the end of the 2023 calendar year. Households face tight budgets, and various industries grapple with challenges like labor costs, inventory issues and competition. Spending generating sales taxes is expected to dip slightly in fiscal year 2024-25 with limited expansion anticipated in the following year, resulting in slower growth, which has been factored into our projections.

Projections based on historical data and projected growth are as follows: Year 1, -0.4 percent; Years 2-3, 2.9 percent; Years 4-5, 2.8 percent.

Transient Occupancy Tax (TOT) – City's transient occupancy tax revenues (not including the beachfront hotels) are projected to increase 8.7 percent in Year 1 over the FY 2023-24 adopted budget. The revenue projection for Year 1 is based on the actual revenue received in the prior year (FY 22-23) of \$13.5M. Year 2 is projected to increase 3 percent as Home 2 Suites hotel is expected to open in January 2026 with 136 rooms. Years 3 through 4 is projected to increase an average of 6.2 percent due to Marriott Residence Inn opening with 117 rooms in January 2027 and Fairfield Inn & Suites opening with 99 rooms in January 2027. Year 5 is projected to increase 1.9 percent.

Beachfront Hotels (TOT) - City's transient occupancy tax revenues for the Seabird and Mission Pacific hotels are projected to increase 33.2 percent in Year 1 which is based on the actual revenue received in the prior year (FY 2022-23) of \$2.86M. Years 2 through 5 is expected to increase an average of 3 percent.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

All Other Taxes: This category includes business license and card room revenues. Year 1 is expected to increase 6.8 percent. Business license tax, the largest contributor to this category, is projected to increase an average of 1.3 percent in Years 2-5 due to moderate economic growth and ongoing new commercial buildings. Card Room fees are projected to increase 2 percent Years 2-5. Measure M Cannabis business tax is projected to increase 1 percent Years 2-5.

Franchise Fees: Includes fees from SDG&E, Cox, and AT&T. Overall revenues are projected to decline due to decreasing numbers of cable subscribers and an increase in internet-based options. Year 1 is projected to increase 1.4 percent based on actual SDG&E revenues received in the prior year, then decreasing an average of 0.6 percent in Years 2 through 5 based on historical trends.

Licenses & Permits: A majority of these permits are development and parking related, with the largest portion for building permits and annual parking permits. The forecast projects a 21.6 percent increase in Year 1 due to building trending upward and based on prior year revenues of \$5.17M. Years 2 through 5 is projected to remain relatively flat.

Fines & Forfeitures: The majority of these revenues collected by the City are for parking citations and traffic fines. The forecast projects a 4.1 percent increase in Year 1. Years 2 through 5 is projected to remain relatively flat.

Use of Money and Property: The revenues collected in this category are from investment returns, leases and rentals. This category is projected to increase 1.3 percent in the next five years.

Intergovernmental: The revenue in this category relies on State and Local programs which can be difficult to project. Year 1 is projected to have an increase of 7.7 percent. Years 2 through 5 remains flat.

Ambulance Billing: Rates are adjusted annually each July. Revenues are expected to increase 6.5 percent in Year 1 due to expanded EMT services. Year 2 is projected to increase by 12.3 percent due to the new AB 1705 Medical Transport program which provides increased reimbursements for public providers of ground emergency medical transportation; Years 3-5 is projected to increase an average of 2.6 percent due to Measure X EMT services possibly ending.

Charges for Services: This category of revenue includes development-related revenues, fire inspections, parking machine collection and general administration charges. The forecast assumes revenues will increase 15.9 percent in Year 1 due to an increase in construction activity and an increase in plan review revenue for projects such as the SIFI and Ubiquity citywide fiber workload projects. Years 2-5 are projected to remain flat.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

Transfers In & Other Revenue: Transfers are projected to increase 4.0 percent in Year 1. Years 2-5 is projected to increase an average of 2.1 percent.

EXPENDITURES

Personnel: Year 1 total costs are projected to increase 5.7 percent. Costs for years 2-5 is expected to increase an average of 4.3 percent. An estimate was used for increases for the future bargaining unit agreements throughout the five-year term of the forecast. The estimate was based on recently completed bargaining group's negotiations. All bargaining group's costs approved by Council prior to December 2023 have been included in the forecast.

Other assumptions:

1. Applicable step increases were included for each year of the forecast.
2. Includes a vacancy factor of 3 percent Years 1-5.
3. PERS normal cost pickup by employees included.
4. Estimated health cap increases for inflation.

The primary issue that the City must contend with is the continued CalPERS rate increases which are based on actuarial assumptions and investment returns.

CalPERS recalculates the costs on an annual basis so the City cannot rule out further increases. The rates are impacted annually by investment returns, retiree longevity, payroll growth and any actuarial assumption changes by CalPERS.

Over the next five years, the total General Fund CalPERS increase is estimated at \$12.88M. The yearly increases are as follows: \$3.85M Year 1, \$1.98M Year 2, \$2.21M Year 3, \$2.34M Year 4 and \$2.5M Year 5.

CalPERS annual required contribution increases have been a concern for some time. Consequently, since FY 2015-16, monies have been "set aside" specifically for this reason. To date, the General Fund has accumulated \$5.1M to provide reserves to help offset costs should there be an unexpected increase in rates or a reduction in General Fund revenues.

In addition, during FY 2017-18, an IRS Section 115 Trust was created to earmark funds to be used only for CalPERS expenses. To date, the City has \$15.3M in this trust. No funds have been withdrawn from the trust.

Maintenance & Operations – Expenditures in this category include such items as professional and contractual service, equipment maintenance and rental, memberships and subscriptions, training, utilities and a variety of other operating costs for departments funded by the General Fund. The FY 2024-25 budget is based on the prior year with a CPI increase of 3.5 percent for Year 1, and 2 percent for Years 2-5. Departments will have to justify any new expenditure requests.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

Beachfront Hotels Rebate – Under the terms of the TOT sharing agreement with the developer of Oceanside Beach Resort (OBR), the developer will receive 100 percent of the TOT revenue for the first three years after the hotel opens. Thereafter, the City and the Developer share in TOT at varying levels for a total period of 15 years on the Seabird Hotel and 14 years on the Mission Pacific Hotel or until total payments of \$11,335,250 (Net Present Value) are made to the Developer. Starting in May 2024 the City will begin to keep a share of the TOT revenues. To date, a total of \$6.3M has been paid.

Carmax Rebate – The agreement with the developer of Carmax allows for an abatement of new taxable gross retail sales tax above \$100,000, increasing by 3 percent per year, within each fiscal year up to an aggregate of \$5,000,000, of the 10-year term of the agreement. This agreement expires November 28, 2028. To date, a total of \$0.48M has been paid.

Pension Bond – the 2015 Refunding Taxable Pension Obligation Bonds (2005 Taxable Pension Obligation Bonds) debt payments ending August 2025, are reflected in the Personnel category.

Internal Service Charges/Transfers – the City has five internal service funds that provide services to the City as a whole. Included in each department operating budget is an amount to pay for these services. The services are risk management, fleet management, information services, general services and city building services. Collectively they are known as "internal service charges." Transfers to these internal service funds are allocated based on usage formulas as defined in various Administrative Directives, and encompass costs for the materials, equipment and the overhead of providing these services.

Risk management costs continue to increase. According to our broker, PRISM, the liability, property and cyber insurance markets have hardened in response to increased claims costs. FY 2024-25 assumes a 13 to 59 percent rate increase for excess insurance layers. These cost increases have been built into the forecast.

Fleet rate increases are an ongoing concern as fuel costs create challenges for planning and budgeting. Vehicle acquisition costs have also increased due to supply interruptions and a global microchip shortage has caused a lack of availability for specific vehicles and equipment.

Additionally, in FY2019-20 the 2019 Lease Revenue Bonds were issued to fund the El Corazon Aquatics Center. The maturity date for these bonds is November 2049. Because of the nature of Lease Revenue Bonds, the debt service payments are collected through Civic Center building rent internal services charges across departments using the Civic Center.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

FUND BALANCE

As of June 30, 2023, the total General Fund balance was \$110.8M. In accordance with the Healthy City Reserve Fund Policy #200-08, a minimum of 12 percent of the General Fund operating expenditure budget (currently at \$24.4M) is identified as a committed fund balance. The General Fund Unassigned Fund Balance available for future capital projects or other City projects/services had \$5.1M as of June 30, 2023.