



City of Oceanside

300 North Coast Highway,
Oceanside, California 92054

Staff Report

File #: 25-567

Agenda Date: 2/5/2025

Agenda #: 13.

DATE: February 5, 2025

TO: Honorable Mayor and City Councilmembers

FROM: Financial Services Department

TITLE: **GENERAL FUND FIVE-YEAR FINANCIAL FORECAST**

RECOMMENDATION

Staff presents the FY 2025-26 through FY 2029-30 General Fund Five-Year Financial Forecast for review and seeks direction to proceed with the development of a fiscally sustainable budget strategy that aligns with the City's long-term goals and priorities. Staff concurrently recommends that the City Council approve the allocation of 50% of the FY 2023-24 General Fund surplus (\$8.25M) to the San Luis Rey River (SLRR) project reserve account and the appropriation of the remaining 50% of the surplus (\$8.25M) to the El Corazon Park Site 1 project.

BACKGROUND AND ANALYSIS

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 and issues so the City can proactively address them. The forecast projects fiscal outcomes based on the continuation of current service levels, policies, and anticipated changes to revenue streams or expenses. It also incorporates historical data to provide context and illustrate the financial trajectory resulting from past decisions.

Generally speaking, positive results within the forecast indicate surplus funds available for new initiatives and projects, while negative results highlight potential budget gaps which could result in spending reductions. For the five-year forecast period, staff projects a consistent positive balance, beginning with a projected surplus of \$3.8 million for FY 2025-26, based on projected revenues of \$231.18 million and expenditures of \$227.38 million.

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 informed by current economic data, consultant reports, and staff analysis, representing a consensus on likely revenues and expenses.

Year one of the forecast serves as the foundation for developing the FY 2025-26 General Fund annual operating budget, which will be presented during the budget workshop on April 30, 2025 and finalized during the budget adoption on June 4, 2025.

Per the City’s FY 2023-24 Audited Annual Comprehensive Financial Report (ACFR), last year’s general fund annual surplus was \$23.9M. Of this amount, \$2.1 million was carried forward to the next fiscal year, \$0.8 million represented a Measure X surplus, and \$4.5 million was attributed to unrealized investment gains. After these adjustments, the total surplus available for allocation is \$16.5 million. In accordance with the City’s Financial Policy 200-13 OB-6, any excess revenue at the end of the fiscal year is allocated in the following year as follows: 50% is directed to enhance the unassigned fund balance, and 50% is applied to reduce long-term unfunded liabilities. This practice ensures that surplus revenues are used strategically to address critical infrastructure needs while mitigating future financial risks.

Staff proposes that 50% of the surplus, or \$8.25M, be added to the San Luis Rey River (SLRR) project assigned account, which is one of the city’s long-term unfunded liabilities. This action would fulfil the intent of Financial Policy 200-13 OB 6. There is currently \$12,666,667 available in a reserve account for the City’s matching funds for the SLRR project. Adding the \$8.25M would bring the reserve balance to \$20,916,667. The outstanding balance of the City’s share is currently approximately \$26,000,000, but will fluctuate as project costs change. Therefore, further steps will be needed to increase the amount of reserves for this project through incremental allocation of funds to the SLRR reserve account in the future budget cycles or other potential funding mechanisms.

Staff proposes that the other 50% of the surplus be allocated to El Corazon Park Site 1. Currently, \$10.1M of funding has been identified for El Corazon Park Site 1. This leaves about an \$8M funding gap to complete the project. Allocating \$8.25M from the FY2023-24 surplus will close this funding gap.

FISCAL IMPACT

The FY 2023-24 General Fund surplus available to allocate totals \$16.5M. \$8.25M is recommended to be allocated to the San Luis Rey River (SLRR) project reserve. The remaining \$8.25M is recommended to be allocated to the El Corazon Park Site 1 project. Funds are to be appropriated and transferred as follows:

Program	Appropriate	Account Number
El Corazon Park Site 1	\$8,250,000	906174923501.5703.10600
Transfer \$8,250,000 from 1101.6900.0501 to 906174923501.6800.0101 Assign \$8,250,000 of Unassigned General Fund Balance 101.3100.0002 to Assigned-SLRR account 101.3020.0231		

COMMISSION OR COMMITTEE REPORT

Does not apply.

CITY ATTORNEY’S ANALYSIS

Does not apply.

Prepared by: Jill Moya, Financial Services Director
Reviewed by: Michael Gossman, Assistant City Manager
Submitted by: Jonathan Borrego, City Manager

ATTACHMENTS:

1. Staff Report
2. General Fund Five-Year Financial Forecast Report

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

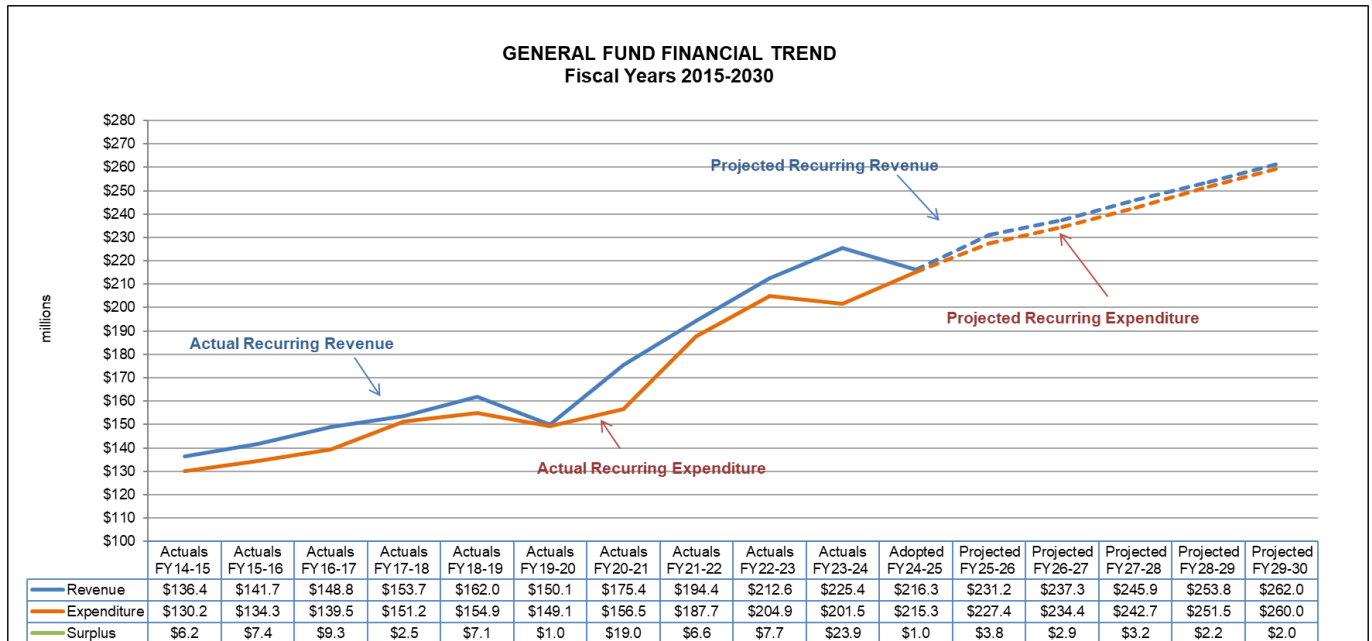
PURPOSE OF THE FORECAST

The purpose of the five-year financial forecast is to project trends and address potential concerns regarding the City of Oceanside's General Fund revenues and expenditures. By providing these projections, the forecast enables the City to proactively prepare for future fiscal challenges and opportunities. It evaluates the prospective impact of recent decisions while offering historical financial data to contextualize past performance. Positive projections reveal surpluses that can fund new initiatives, whereas negative projections highlight potential budgetary gaps that may require corrective actions.

This approach aligns with the Recommended Budget Practices established by the National Advisory Council on State and Local Budgeting (NACSLB), which emphasizes forecasting as a critical component of sound fiscal management. However, it is important to note that this financial forecast is neither a budget nor a financial strategy designed to achieve specific objectives. Instead, it serves as a planning tool to inform decision-making and support long-term fiscal health.

GENERAL FUND FINANCIAL TREND

Below is a chart showing the actual General Fund revenues and expenses for the past ten years, as well as projected revenues and expenses for the current year and the next five years. The revenue decline in fiscal year 2019-20 was a result of the Covid-19 pandemic. In response, the City's General Fund expense budgets were reduced, allowing the City to avoid a deficit by the end of that fiscal year. Following the pandemic, with economic uncertainty and concerns about a potential recession, the City adopted a conservative approach to revenue projections, which led to larger-than-expected surpluses. The General Fund Five-Year forecast for FY 2025-26 to FY 2029-30 takes a somewhat less conservative approach, factoring in projected revenue increases driven by anticipated development and a growing economy.



GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

Table 1 shows the next five years as forecasted in January 2025. The FY 2025-26 General Fund forecast includes \$231.18M in revenues and \$227.38 in expenditures with an anticipated surplus of \$3.8M.

**Table 1
General Fund Five-Year Forecast Summary**

<i>in millions</i>	Adopted Budget FY24-25	Forecast Year 1 FY25-26	Forecast Year 2 FY26-27	Forecast Year 3 FY27-28	Forecast Year 4 FY28-29	Forecast Year 5 FY29-30					
RECURRING REVENUES											
Property Taxes	\$ 89.74	\$ 95.69	6.6%	\$ 99.88	4.4%	\$ 105.81	5.9%	\$ 111.16	5.1%	\$ 117.13	5.4%
Sales & Use Taxes	29.25	32.98	12.8%	33.87	2.7%	34.77	2.7%	35.69	2.6%	36.63	2.6%
Transient Occupancy Tax	13.58	13.29	-2.1%	13.70	3.1%	14.30	4.4%	14.60	2.1%	14.72	0.8%
Beachfront TOT	2.86	3.59	25.4%	3.70	3.0%	3.81	3.0%	3.92	3.0%	4.04	3.0%
All Other Taxes	4.90	5.49	12.0%	5.60	2.0%	5.71	2.0%	5.82	1.9%	5.94	2.1%
Franchise Fees	4.40	4.56	3.6%	4.55	-0.2%	4.55	0.0%	4.54	-0.2%	4.54	0.0%
Licenses & Permits	5.47	4.97	-9.1%	4.98	0.2%	4.98	0.0%	4.98	0.0%	4.99	0.2%
Fines & Forfeitures	4.18	4.28	2.4%	4.28	0.0%	4.28	0.0%	4.28	0.0%	4.28	0.0%
Use of Money & Property	7.86	9.86	25.4%	9.67	-1.9%	9.78	1.1%	9.90	1.2%	10.02	1.2%
Intergovernmental	0.56	0.56	0.0%	0.56	0.0%	0.56	0.0%	0.56	0.0%	0.56	0.0%
Ambulance Billing	8.53	9.80	14.9%	10.00	2.0%	10.20	2.0%	10.50	2.9%	10.82	3.0%
Charges for Services	25.10	25.57	1.9%	25.79	0.9%	26.01	0.9%	26.20	0.7%	26.24	0.2%
Transfers In & Other Revenues	19.85	20.54	3.5%	20.72	0.9%	21.16	2.1%	21.60	2.1%	22.08	2.2%
TOTAL RECURRING REVENUES	\$ 216.28	\$ 231.18	6.9%	\$ 237.30	2.6%	\$ 245.92	3.6%	\$ 253.75	3.2%	\$ 261.99	3.2%
RECURRING EXPENDITURES											
Personnel											
Compensation Cost	79.84	85.33	6.9%	89.69	5.1%	93.53	4.3%	97.24	4.0%	100.79	3.7%
Overtime	7.62	8.04	5.5%	8.13	1.2%	8.38	3.0%	8.63	3.0%	8.88	3.0%
PERS	32.91	35.74	8.6%	38.51	7.8%	40.79	5.9%	42.83	5.0%	45.55	6.4%
Pension Bond	4.55	0.26	-94.2%								
Health Insurance	13.04	12.81	-1.7%	13.45	5.0%	14.12	5.0%	14.83	5.0%	15.57	5.0%
Workers Comp	5.78	6.05	4.7%	6.35	4.9%	6.62	4.3%	6.89	4.0%	7.14	3.6%
Other Benefits	4.21	5.03	19.5%	5.17	2.9%	5.29	2.3%	5.44	2.8%	5.56	2.3%
<i>Personnel Cost Subtotal</i>	\$ 147.93	\$ 153.25	3.6%	\$ 161.31	5.3%	\$ 168.73	4.6%	\$ 175.85	4.2%	\$ 183.50	4.4%
Maintenance & Operations	35.90	35.80	-0.3%	36.48	1.9%	37.19	1.9%	37.91	1.9%	38.49	1.5%
Rebate for OBR	2.10	2.80	33.6%	2.88	3.0%	1.96	-32.1%	2.02	3.0%	2.08	3.0%
Rebate for Carmax	0.59	0.61	3.5%	0.63	3.5%	0.65	3.5%	0.67	3.5%	0.69	3.5%
Transfers Out & Internal Service Charges	32.20	34.93	8.5%	33.08	-5.3%	34.18	3.3%	35.05	2.5%	35.23	0.5%
	\$ 218.71	\$ 227.38	4.0%	\$ 234.38	3.1%	\$ 242.71	3.6%	\$ 251.51	3.6%	\$ 260.00	3.4%
One-time cost from Fund Balance	\$ (3.43)										
TOTAL RECURRING EXPENDITURES	\$ 215.28	\$ 227.38	5.6%	\$ 234.38	3.1%	\$ 242.71	3.6%	\$ 251.51	3.6%	\$ 260.00	3.4%
Surplus/(Shortfall)	\$ 1.00	\$ 3.80		\$ 2.92		\$ 3.21		\$ 2.24		\$ 1.99	

ECONOMIC OUTLOOK

Recent economic indicators indicate continued growth in the U.S. economy, though at a moderated pace compared to previous quarters. According to the Bureau of Economic Analysis (BEA), real Gross Domestic Product (GDP) increased at an annual rate of 2.8% in the third quarter of 2024, following a 3.0% rise in the second quarter. This growth was primarily driven by robust consumer spending, which surged at a 3.7% annual rate, the fastest pace since early 2023, supported by rising wages and easing inflation, as noted by the BEA. Analysts from Ernst & Young (EY) further project that real GDP growth will average 2.7% in 2024, slowing to 2.0% in 2025 and 1.7% in 2026. Inflationary pressures are expected to continue diminishing, with headline inflation projected at 2.5% and core personal consumption expenditures (PCE) inflation at approximately 2.8% by the end of 2024. Meanwhile, the labor market remains resilient, with unemployment holding steady at 4.1% by late 2024, reflecting stability despite decelerating job growth.

The October 2024 University of California, Los Angeles (UCLA) Anderson Forecast similarly anticipates a period of subpar growth for the U.S. economy in 2024, though it does not foresee a recession. For California, the report

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highlights a comparable outlook, with the state expected to maintain growth due to strong consumer spending and stimulative fiscal policies. UCLA Anderson economists note that higher interest rates have not dampened demand for the state's limited housing stock. Instead, they expect new state housing policies to encourage recovery in the housing sector, with a subsequent period of solid growth in new home production beginning in 2025. California is projected to outpace national economic growth in 2025 and 2026, bolstered by its dynamic housing and construction sectors.

In developing this Five-Year Forecast, these economic indicators and expert analyses were carefully considered. For example, a Consumer Price Index (CPI) of 3% was applied to maintenance and operations budgets for Fiscal Year (FY) 2025-26, reflecting anticipated inflation trends. This follows adjustments of 5%, 3.5%, and 3.5% in the previous three years, aimed at keeping pace with inflation.

It is important to recognize that while these forecasts reflect national and state trends, they may not directly mirror Oceanside's economic outlook. Locally, Oceanside continues to grow, supported by strong home sales and ongoing commercial development. While several hotel projects are in the pipeline, no new hotels are currently under construction. However, planned developments are expected to drive incremental increases in property tax and transient occupancy tax revenues over the next several years, reinforcing the city's fiscal health.

DEMOGRAPHIC TRENDS

Population - Oceanside's 2024 population per the California Department of Finance is 171,483.

Inflation — The City of Oceanside monitors the Consumer Price Index for All Urban Consumers (CPI-U) for San Diego, CA, as reported by the U.S. Department of Labor. This index measures the change in prices paid by consumers for goods and services, reflecting spending patterns. The most recent data, released in December 2024, indicates that the CPI-U for San Diego increased by 2.6% over the 12 months ending in November 2024. According to the U.S. Department of Labor, this represents a deceleration compared to the 5.2% increase reported in November 2023.

The slowdown in inflation is largely attributed to a significant decline in energy prices, which fell by 11.9% over the year, primarily due to decreases in gasoline prices. Additionally, prices for natural gas services declined by 13.3%, and electricity prices decreased by 11.8%. However, food prices rose by 6.3%, with food away from home seeing a notable increase of 11.7%. These figures highlight that while overall inflation has moderated, consumers continue to face higher costs in specific categories, particularly food (U.S. Department of Labor, Bureau of Labor Statistics).

Consumer Confidence Index —serves as a barometer of the U.S. economy from the perspective of consumers, reflects individuals' perceptions of current business and employment conditions and their expectations for the next six months regarding business, employment, and income. As of November 2024, the index rose to 111.7, up from 109.6 in October, according to the Conference Board. This marks the highest level since mid-2023 and suggests growing optimism about the economy's direction (MarketWatch, 2024).

The increase is attributed to decelerating inflation, a strong labor market, and rising stock prices, all of which contribute to consumers feeling more secure about their financial prospects. Additionally, the Expectations Index, which measures consumers' short-term outlook for income, business, and labor market conditions, climbed to 92.3, its strongest reading in nearly three years, reinforcing the positive sentiment (AP News, 2024; MarketWatch, 2024).

This rise in consumer confidence indicates a favorable economic outlook as the nation approaches 2025, potentially leading to increased consumer spending and economic activity.

Unemployment Rate – As of October 2024, the unemployment rate in Oceanside was 4.9%, reflecting a slight increase compared to the previous year. This rate is marginally higher than the San Diego County unemployment

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rate of 4.7%, as reported by the California Employment Development Department (EDD). Statewide, California's unemployment rate stood at 5.4% during the same period, marking a 0.3 percentage point increase from October 2023 (EDD, 2024).

The slight uptick in Oceanside's unemployment rate mirrors broader trends in the labor market across California, where higher interest rates have slowed hiring in certain industries. The increase is consistent with trends observed in the San Diego region, where the unemployment rate rose slightly from 4.6% in September to 4.7% in October 2024, according to EDD's labor market information. Similarly, nationwide data from the U.S. Bureau of Labor Statistics (BLS) attributes rising unemployment rates to shifts in the construction and manufacturing sectors, which have been sensitive to recent economic conditions (BLS, 2024).

These figures highlight the importance of local workforce development initiatives in Oceanside. With continued investments in commercial and industrial projects, Oceanside is well-positioned to stabilize and potentially reduce unemployment rates, even as external economic pressures persist.

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 \$885,000 in 2024, an 8.59 percent decrease from 2023. However, Oceanside continues to experience commercial and residential construction growth. The City's taxable assessed value increased by 6% or \$1.9 billion, from FY 2023-24. Forecasted revenues based on market trends and timing of future construction project an average increase of 5.5% 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 2023-24 sales came within 0.5% of the Bradley Burns forecast. Sales tax is projected to increase by 12.8 percent in Year 1 based on actuals revenue received in the prior year (FY 2023-24). Spending generating sales taxes is expected to increase slightly in fiscal year 2025-26 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 is an average increase of 4.7% for the next five years.

Transient Occupancy Tax (TOT) – City's transient occupancy tax revenues (not including the beachfront hotels) are projected to decrease 2.1 percent in Year 1 over the FY 2024-25 adopted budget partially due to changes to the City's Short Term Rental (STR) ordinance. The \$13.29M revenue projection for Year 1 is based on the actual revenue received in the prior year (FY 2023-24). Year 2 is projected to increase 3.1 percent . Years 3 through 5 is projected to increase an average of 2.4 percent.

Beachfront Hotels (TOT) - City's transient occupancy tax revenues for the Seabird and Mission Pacific hotels are projected to increase 25 percent in Year 1 which is based on the actual revenue received in the prior year (FY 2023-24) of \$3.5M. Years 2 through 5 is expected to increase 3 percent.

All Other Taxes: This category includes business license, card room, and Measure M Cannabis Business tax revenues. Year 1 is expected to increase 12 percent with all categories seeing steady increases based on the actual revenue received in the prior year (FY 2023-24). Business license tax, the largest contributor to this category, is projected to increase an average of 2 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 through 5. Measure M Cannabis business tax generated \$280,000 in the prior year (FY 23-24), with FY 24-25 expected to continue at this level. Years 2 through 5 is projected to increase 2 percent. .

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

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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 9.1 percent decrease in Year 1 due to new building development trending downward. 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 2.4 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. The forecast projects a 25.4 percent increase in Year 1 based on prior year portfolio performance. Years 2 projects a 1.9 percent decrease due to a private vendor vacating part of the City operation center. Years 3 through 5 is projected to increase an average of 1.2 percent.

Intergovernmental: The revenue in this category relies on State and Local programs such as Peace Officer P.O.S.T training reimbursements, Fire training agreement with Palomar College and San Onofre dismantling reimbursement to offset cost, which can be difficult to project. Years 1 through 5 remains flat.

Ambulance Billing: Rates are adjusted annually each July. Revenues are expected to increase 14.9 percent in Year 1 due to expanded EMT services and the new AB 1705 Medical Transport program which provides increased reimbursements for public providers of ground emergency medical transportation; Years 2 through 5 is projected to increase an average of 2.5 percent.

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 1.9 percent in Year 1 due to an increase in land development plan review revenue for projects such as the SIFI and Ubiquity citywide fiber projects. Years 2 through 4 is projected to increase an average of 1 percent. Year 5 is projected to remain flat.

Transfers In & Other Revenue: Transfers from other funds are projected to increase 3.5 percent in Year 1, primarily driven by the overall budgets based on M&O CPI and bargained salary increases. Years 2 through 5 is projected to increase an average of 1.8 percent.

EXPENDITURES

Personnel: Year 1 total costs are projected to increase 3.6 percent. Costs for years 2 through 5 is expected to increase an average of 4.6 percent. It's important to note that these increases do not reflect any additional personnel costs that could be realized should the City increase staffing levels during the five-year projection period. 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 2024 have been included in the forecast.

Other assumptions include:

1. Applicable step increases for each year of the forecast.
2. Vacancy factor of 2 percent Years 1 through 5.
3. PERS normal cost pickup by employees.
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

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growth and any actuarial assumption changes by CalPERS. Over the next five years, the total General Fund CalPERS increase is estimated at \$12.65M. The yearly average increase for the next five years is \$2.53M. 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 \$5M to provide reserves to help offset costs should there be an unexpected increase in rates or a reduction in General Fund revenues. Additionally, during FY 2017-18, an IRS Section 115 Trust (Pension Stabilization Trust) was created to earmark funds to be used only for CalPERS expenses. To date, the City has \$17.55M in this trust. No funds have been withdrawn from the trust which serves as an important resource that the City could utilize in the event of unanticipated spikes in pension costs.

A position reclassification is included in this forecast, with the Senior Information Technologies (IT) Analyst being upgraded to an IT Director position. This reclassification reflects the growing complexity of the City's IT needs, including addressing cybersecurity threats and aligning IT strategies with long-term goals. Establishing IT as a standalone department ensures more focused leadership and operational efficiency. This change results in a net increase of \$96,850 to the IT budget, of which \$51,000 is from the General Fund.

Finally, it should be noted that the annual budget surpluses reflected in this five-year forecast do not account for any personnel additions which could be presented for Council consideration as part of the final FY 2025-26 budget adoption process.

Workers Compensation and General Liability

Workers Compensation costs are projected to increase by an average of 4.3% annually over the next five years, driven by rising healthcare costs, base wage increases, state Labor Code changes, and rulings from the Workers Compensation Appeals Board. To manage long-term liability costs, the City has implemented enhanced safety training, proactive injury management with the City's Third-Party Administrator, and modified duty opportunities to support injured employees returning to work. Staff also aggressively investigates questionable claims and expedites settlements. Over time, these measures aim to reduce exposures and improve Workers Compensation insurance rates.

General Liability costs are similarly rising due to the hardening of liability, property, and cyber insurance markets, which have led to increased claims costs within PRISM, the City's insurance pool provider. For FY 2025-26, PRISM has estimated a 16% rate increase. To address these rising costs, the City has increased its self-insured retention from \$750,000 to \$1 million. These trends are consistent with challenges faced by other public agencies.

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. The current payment for FY 2024-25 is \$4.55 million, with a remaining payment of \$260,000 in FY 2025-26.

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 2025-26 budget is based on the prior year with a CPI increase of 3 percent for Year 1, and 2 percent for Years 2 through 5. Departments will have to justify any new expenditure requests.

The following expenditures were initially approved as one-time budget increases for FY 2024-25 due to economic uncertainty and a limited projected surplus. However, with a stronger financial outlook, staff recommends transitioning the following allocations, totaling \$700,000, into ongoing expenditures for FY 2025-26 and subsequent years as part of Maintenance & Operations:

- **Fire Suppression:** Replacement of Structural Personal Protective Equipment (PPE) – \$212,100

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- **Police Department:** Enhanced funding for Training, Recruiting, and Community Engagement – \$220,000
- **Parks Maintenance:** Irrigation System Repairs – \$166,334
- **Street Sweeping:** Additional support for Radar Feedback and Traffic Signal Parts – \$20,000
- **Parks and Recreation:** Expanded Special Events Programming – \$81,000

Beachfront Hotels Rebate – The Seabird and Mission Pacific beachfront hotels, which opened on May 25, 2021, operate under a TOT rebate agreement with the City, committing to rebate a net present value of \$11.34 million (discounted at 12% as of January 2019) to the developer, SD Malkin. As of April 30, 2024, \$7.93 million in TOT revenues has been reimbursed, equivalent to a discounted present value of \$4.80 million, applied toward the total subsidy. With projected annual revenue growth of 3% starting in year four, the Seabird's rebate is expected to be fully reimbursed by 2033 and Mission Pacific's by 2027. Assuming total beachfront revenue continues to increase by 3% annually, the City is forecasted to retain a total of \$7.3 million in revenue over the course of years 1 through 5 of the forecast. This timeline aligns with the tiered revenue-sharing thresholds and increasing annual limits outlined in the agreement.

CarMax Rebate – The agreement with CarMax, which opened near the end of second quarter of 2022, obligates the City to pay the developer a subsidy not to exceed \$5 million or a 10-year period, whichever occurs first. The subsidy is based on new taxable gross retail sales tax revenue, excluding all Measure X revenues, generated by the project. The City will retain sales tax revenue generated by the project equal to the base amount of \$100,000, increasing by 3% annually during the term of the agreement. To date, a total of \$1.01M has been paid towards the \$5 million subsidy.

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 2025-26 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 increases and production limitations of commercial type electric vehicles 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.

Capital Improvement Projects (CIPs) - The anticipated FY 2025-26 surplus has allowed staff to set aside \$3 million for Capital Improvement Projects that were not previously included in prior forecasts. These funds address maintenance needs, enhance public safety, and support economic growth. This allocation aligns with the City's long-term strategic goals by addressing deferred maintenance and planning for future growth. The \$3 million will be available for CIP project recommendations during the annual CIP budget process.

FUND BALANCE

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

As of June 30, 2024, the total General Fund balance was \$133.8M. 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 \$3.35M as of June 30, 2024.

In summary, the City of Oceanside's Five-Year Financial Forecast provides a comprehensive outlook on projected revenues and expenditures, economic trends, and key financial challenges. While the City anticipates steady revenue growth driven by development and a strong local economy, rising personnel costs, particularly CalPERS obligations, remain a significant long-term concern. Prudent financial planning and proactive adjustments will be essential to maintaining fiscal stability and ensuring that Oceanside continues to meet the needs of its residents. This forecast serves as a valuable tool for informed decision-making, guiding the City toward a sustainable financial future.