



DATE: February 9, 2022

TO: Honorable Mayor and City Councilmembers

FROM: Financial Services Department

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

SYNOPSIS

Staff submits the FY 2022-23 through FY 2026-27 General Fund Five-Year Financial Forecast for review and requests direction to proceed with developing a fiscally sustainable budget strategy.

BACKGROUND

The financial forecast takes 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. 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;" if negative, it shows the likely "budget gap." Throughout the five-year forecast period, staff is projecting a positive balance, with a surplus of \$3.42M forecast for the next year, Fiscal Year 2022-23, based on revenues of \$187.45M and expenditures of \$184.03M.

The National Advisory Council on State and Local Budgeting (NACSLB) has endorsed the forecasting of revenues and the forecasting of expenditures in their "Recommended Budget Practices."

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, and represents a staff consensus on likely revenues and expenses.

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

Staff submits the FY 2022-23 through FY 2026-27 General Fund Five-Year Financial Forecast for review and requests direction to proceed with developing a fiscally sustainable budget strategy.

PREPARED BY:



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SUBMITTED BY:



Deanna Lorson
City Manager

REVIEWED BY:

Michael Gossman, Assistant City Manager



ATTACHMENTS:

A – General Fund Five-Year Financial Forecast

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

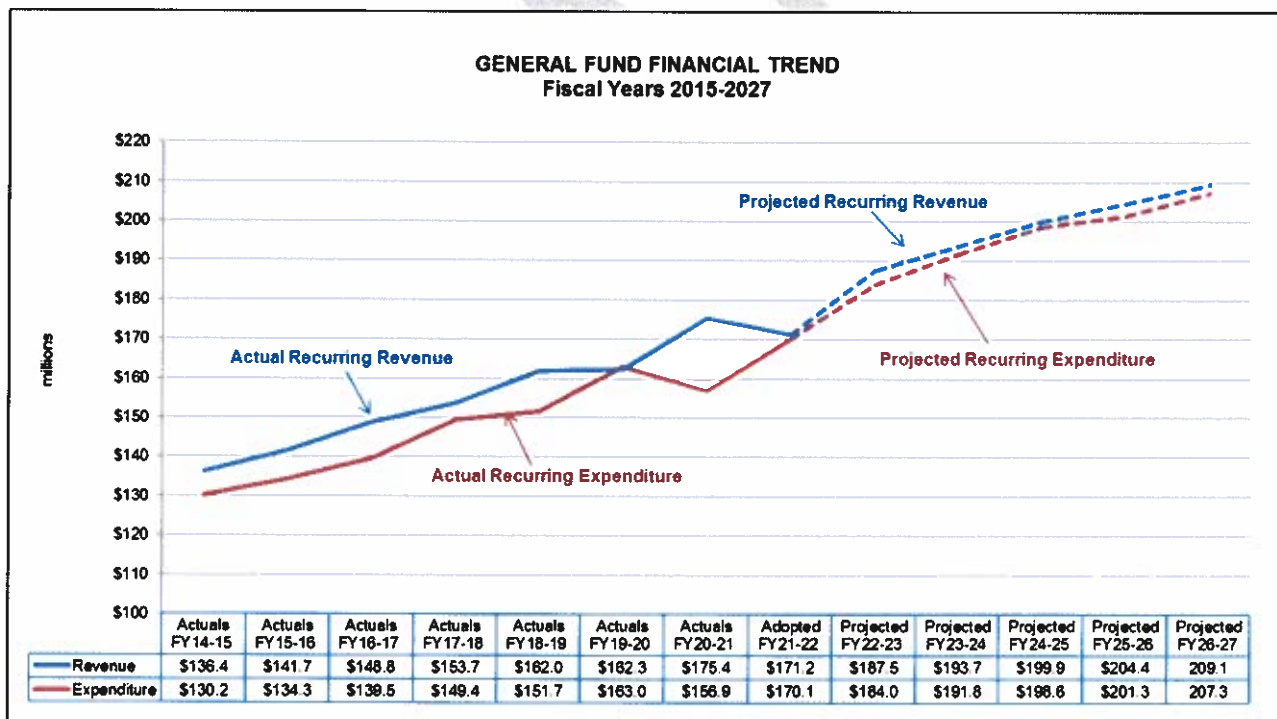
PURPOSE OF THE FORECAST

The financial forecast takes 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 out into the future the fiscal results of continuing the City's current service levels and policies, provides a snapshot of what the future will look like as a result of the decisions made in the recent past. It also recaps historical data to indicate the financial status of the past.

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GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

Table 1 shows the next five years as forecasted in February 2022. The FY 2022-23 General Fund forecast includes \$187.45M in revenues and \$184.03M in expenditures with an anticipated surplus of \$3.42M.

Table 1

City of Oceanside GENERAL FUND FINANCIAL FORECAST Fiscal Years 2022-23 through 2026-27 in millions						
	Adopted	PROJECTION				
	Budget FY21-22	Year 1 FY22-23	Year 2 FY23-24	Year 3 FY24-25	Year 4 FY25-26	Year 5 FY26-27
RECURRING REVENUES						
Property Taxes	\$ 74.51	\$ 79.79	\$ 83.95	\$ 87.23	\$ 89.00	\$ 90.81
Sales & Use Taxes	24.14	27.13	27.75	28.39	29.04	29.71
Transient Occupancy Tax	7.09	8.80	9.28	10.63	11.77	13.04
Beachfront TOT	-	2.21	2.27	2.34	2.41	2.48
All Other Taxes	4.00	4.27	4.33	4.38	4.43	4.48
Franchise Fees	4.26	4.26	4.21	4.17	4.13	4.09
Licenses & Permits	3.87	4.06	4.06	4.07	4.07	4.07
Fines & Forfeitures	3.73	3.73	3.73	3.73	3.73	3.73
Use of Money & Property	7.39	7.67	7.79	7.90	8.01	8.13
Intergovernmental	0.41	0.48	0.48	0.48	0.48	0.48
Ambulance Billing	5.27	5.27	5.37	5.47	5.57	5.67
Charges for Services	14.24	14.59	14.77	14.95	15.13	15.31
Transfers In & Other Revenues	22.26	25.19	25.67	26.16	26.64	27.13
Total Recurring Revenues	\$ 171.17	\$ 187.45	\$ 193.66	\$ 199.90	\$ 204.41	\$ 209.13
RECURRING EXPENDITURES						
Personnel						
Compensation Cost	\$ 68.19	\$ 71.73	\$ 75.82	\$ 79.40	\$ 82.81	\$ 86.09
Overtime	6.72	7.08	7.10	7.11	7.12	7.13
PERS	25.09	27.75	30.14	32.50	34.14	35.56
Pension Bond	4.09	4.23	4.39	4.55	1.26	1.00
Health Insurance	9.55	10.41	10.52	10.62	10.73	10.83
Workers Comp	5.01	5.44	5.75	6.03	6.29	6.54
Other Benefits	3.71	3.94	4.07	4.19	4.30	4.40
Personnel Cost Subtotal	\$ 122.36	\$ 130.59	\$ 137.78	\$ 144.40	\$ 146.64	\$ 151.56
Maintenance & Operations	\$ 24.91	\$ 26.58	\$ 27.30	\$ 27.91	\$ 28.13	\$ 28.68
Rebate for OBR	-	2.21	2.27	1.64	1.69	1.74
Debt Service	0.42	0.42	0.02	0.02	0.02	0.02
Transfers Out & Internal Service Charges	22.44	24.24	24.44	24.66	24.84	25.29
Total Recurring Expenditures	\$ 170.14	\$ 184.03	\$ 191.80	\$ 198.62	\$ 201.32	\$ 207.29
Surplus/(Shortfall)	\$ 1.03	\$ 3.42	\$ 1.86	\$ 1.28	\$ 3.09	\$ 1.84

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

Table 2

General Fund Revenues Projected Percent Changes					
	Year 1	Year 2	Year 3	Year 4	Year 5
	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27
Property Taxes	7.1%	5.2%	3.9%	2.0%	2.0%
Sales & Use Taxes	12.4%	2.3%	2.3%	2.3%	2.3%
Transient Occupancy Tax	24.2%	5.4%	14.6%	10.7%	10.8%
Beachfront TOT	0.0%	3.0%	3.0%	3.0%	3.0%
All Other Taxes	6.7%	1.4%	1.2%	1.1%	1.1%
Franchise Fees	0.0%	-1.2%	-1.0%	-1.0%	-1.0%
Licenses & Permits	4.9%	0.0%	0.2%	0.0%	0.0%
Fines & Forfeitures	0.0%	0.0%	0.0%	0.0%	0.0%
Use of Money & Property	3.8%	1.6%	1.4%	1.4%	1.5%
Intergovernmental	17.1%	0.0%	0.0%	0.0%	0.0%
Ambulance Billing	0.0%	1.9%	1.9%	1.8%	1.8%
Charges for Services	2.5%	1.2%	1.2%	1.2%	1.2%
Transfers In & Other Revenues	13.2%	1.9%	1.9%	1.8%	1.8%
TOTAL RECURRING REVENUES	9.5%	3.3%	3.2%	2.3%	2.3%

ECONOMIC OUTLOOK

The Five-Year Forecast was developed using economic indicators and industry expert forecasts. The COVID-19 pandemic of 2020 moved the economy into a recession that impacted all areas of California and national economies. According to UCLA Anderson School of Management, with each successive COVID wave, the economy has grown more resilient to the effects of the virus, but by the end of 2020, it became clear that consumer behavior, not government restrictions, had the greatest effect on economic outcomes. Evidenced by the facts that consumers cut back on in-person commerce and services even before governments imposed restrictions, and that service consumption fell about equally in areas that imposed restrictions and those that did not.

Economic growth is expected for the second quarter of 2022. Specifically, 4.6% and 2.4% growth is forecasted for the third and fourth quarters of 2022. 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.

The City's pension cost is projected to increase \$10.47 million in the general fund over the next five years. The City continues to pay down the unfunded liability with one-time funds and a third of quarterly investment interest earnings.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

KEY POINTS

- The financial forecast does not address any future adverse budget impacts from State or Federal actions beyond the CalPERS July 2021 Actuarial Report. As a percent of compensation, Safety personnel CalPERS costs will increase, as a percentage of salary from 44.75% in FY 2021-22 to 49.40% in FY 2026-27. Miscellaneous personnel CalPERS costs will increase as a percentage of salary from 33.05% in FY 2021-22 to 35.20% in FY 2026-27.
- Assumptions used to forecast revenue and expenditures are noted in a separate section of the report.
- The financial forecast will be updated on an annual basis to accommodate adjustments in economic trends and operational costs.

MEASURE X

Over the past decade, revenues have not kept pace with growing costs associated with providing municipal services and facilities. It is becoming increasingly challenging to maintain the quality of City services expected by residents, such as crime and gang prevention, 911 response, pothole repair, and street maintenance. The City has been proactive in responding to this challenge by reducing its costs where feasible, including laying off more than 100 employees, deferring street and infrastructure maintenance, and cutting back on basic City Services in order to maintain service levels, however additional revenue sources were needed.



On June 6, 2018, Council approved the placement of temporary one-half cent general transactions and use (sales) tax measure on the November 6, 2018 municipal election ballot.

In November 2018, the citizens approved Measure X by 55.7%. Measure X raised the sales tax in the City of Oceanside by a half cent for a period of seven years beginning April 1, 2019. The annual revenues are estimated to be \$11.2 million. The additional half cent sales tax is to be used for improving City services as noted above and not ongoing employee or operating costs. The Measure X revenues and expenditures are placed in a separate fund and is not included in the Five-Year Forecast.

In order to provide for citizens' oversight, transparency and accountability in connection with expenditures of tax revenues generated by Measure X a Citizens Oversight Committee ("COC") was created. The COC is responsible for review and comment on the Finance Report. Spending Plan and Annual Audit; review of annual report regarding compliance with the Spending Plan; and work with City staff to identify and apply "best practices" for tracking and reporting.


The COC recommended and the City Council approved a Measure X Spending Plan for Year 1 on June 5, 2019. The Spending Plan for Year 2 was approved on June 3, 2020 to continue the programs and projects initiated in Year 1 with additional funding programmed for crime

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST

prevention and equipment needs. The Spending Plan of \$16.93M for Year 3 was approved on June 2, 2021. The Spending Plan for Year 3 continues the programs and infrastructure projects initiated in Year 1 and 2.

DEMOGRAPHIC TRENDS

Population - Oceanside's 2021 population per the California Department of Finance is 176,754.

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. Per the most recent data as of November 2021, the CPI has increased 6.6 percent compared to an increase of 1.6 percent in November 2020. The major increases were in food prices of 7.5 percent. Energy prices jumped 37.2 percent, largely the result of an increase in the price of gasoline. 

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 December 22, 2021 is at 115.8 which is up from 111.9 from the previous month, and up from 92.9 index in November 2020. It was noted that confidence has improved further in December following a modest gain in November. Expectations about short-term growth prospects improved, setting the stage for continued growth in early 2022. The proportion of consumers planning to purchase homes, automobiles, major appliances, and vacations over the next six months increased.

Unemployment Rate - As of October 2021, Oceanside unemployment rate was 5.4 percent, slightly higher than the San Diego County unemployment rate of 5.3 percent. The State of California unemployment rate was 7.3 percent as of October 2021. As of November 2021, California unemployment rate is down to 6.9 and 4.2 nationwide. Due to the onset of the COVID-19 pandemic and the accompanying economic disruptions the unemployment rate rose to an all-time high of 16.4 percent set in May 2020.

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REVENUES



Property Tax – Oceanside continues to experience commercial and residential construction growth and increases in property values.

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 \$685,000 in 2021, a 14.98 percent increase from 2020.

HdL Companies preliminary guide of the City's property tax revenues for FY 2021-22 shows the City experienced a net taxable value increase of 4.1 percent, which is slightly higher than the countywide at 3.4 percent increase. The City's assessed value increase between FY 2020-21 and FY 2021-22 was \$1.1 billion.

Projections based on historical data and projected tax base growth are as follows: Year 1, 7.1 percent; Year 2, 5.2 percent; Year 3, 3.9 percent; Years 4-5, 2.0 percent.

Sales & Use Tax –The City of Oceanside contracts with The HdL Companies for sales tax management services. Oceanside's 2021 second quarter sales were 24.3 percent above the 2020 second quarter sales which was the most adversely impacted sales tax period related to the COVID-19 pandemic. Looking ahead statewide, sustained sales tax growth is still anticipated through the end of the 2021 calendar year. Pent up demand for travel and experiences, the return of commuters with more costly fuel, and labor shortages are creating upward pressure on prices which may begin to consume more disposable income and tighten growth by the start of 2022.

Projections based on historical data, retail and restaurant continued growth are as follows: Year 1, 12.4 percent; Years 2-5, 2.3 percent.

Transient Occupancy Tax (TOT) – City's transient occupancy tax revenues are projected to increase 24.2 percent in Year 1 over the FY 2021-22 adopted budget which was a conservative projection due to the COVID-19 economic disruption. The expected growth in Year 1 is primarily due to an increase in short term rentals, and anticipated opening of 408 Pier View Way with 10 rooms in March 2022. Year 2 is projected to increase 5.4 percent due to Fairfield Inn and Suites opening with 99 rooms in January 2024. Year 3 is projected to increase 14.6 percent as Ocean Kamp is expected to open in January 2025 with 300 rooms, and Airport Hotel in July 2024 with 86 rooms. Additionally, although the Beachfront Resort opened late in FY 2020-21, per their agreement, the Resort will start paying the City TOT in FY 2024-25 and this revenue is included in Year 3. Year 4 is projected to increase 10.7 percent due new hotel openings from prior year. Year 5 is projected to increase by 10.8 percent based on full year of new hotel openings from prior year along with Home 2 Suites opening with 137 rooms and Marriott Residence Inn opening with 117 rooms.

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There are additional hotels in the planning stage that were not considered in the forecast as the completion dates are unknown. TOT is expected to surpass the pre-COVID actual revenue of \$8.5M received in FY 2018-19 in Year 1.

All Other Taxes: This category includes business license and card room revenues. Year 1 is expected to increase 6.7 percent. Business license tax, the largest contributor to this category, is projected to increase 1 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. City is expected to start receiving Measure M Cannabis business tax starting Year 1 with a 2 percent increase 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 stay the same, then decreasing from 1.2 to 1 percent in Years 2 through 5.

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 5.4 percent increase in Year 1 due to building trending upward and new cannabis fees. 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. This revenue is projected to remain flat Years 1 through 5.

Use of Money and Property: The revenues collected in this category are from investment returns and leases and rentals. Year 1 is projected to increase by 3.8 percent. Subsequent Years 2-5 have a modest increase of 1.4 to 1.6 percent due to the unpredictability of investment returns.

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 17.1 percent for reimbursable Police POST training that is reinstated after the COVID-19 disruption. Years 2-5 remains flat.

Ambulance Billing: Rates are adjusted annually each July. Revenues are expected to remain flat in Year 1. The revenues for Years 2-5 are projected to increase between 1.8 and 1.9 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 2.5 percent in Year 1 and a conservative increase of 1.2 percent in Years 2-5 due to the unpredictability of development.

Transfers In & Other Revenue: Transfers are projected to increase 13.2 percent in Year 1 and then remain relatively consistent at 1.8 to 1.9 percent for Years 2 through 5.

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EXPENDITURES

Personnel: Year 1 total costs are projected to increase 6.7 percent. Costs for Years 2-5 is expected to increase an average of 3.8 percent. An estimate was used for the five bargaining units that will finish negotiations in FY 2021-22 that will go into effect in FY 2022-23. The estimate was based on recently completed bargaining group's negotiations. For Years 2-5, a 3.5 percent increase has been forecasted for all bargaining units. All bargaining units' costs approved prior to December 2021 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 3.5 percent Years 1-5.
3. Includes all known PERS costs with an annual 2% prepayment discount applied.
4. PERS additional payments to Unfunded Accrued Liability of \$1M in Years 4-5.
5. PERS normal cost pickup by employees included
6. Estimated health cap increases for inflation.
7. Does not include additional compensation studies.
8. Includes minimum wage increases for appropriate hourly extra help employees.
9. Additional four new positions and one position upgrade.

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 \$10.47M. The yearly increases are as follows: \$2.65M Year 1, \$2.40 Year 2, \$2.36M Year 3, \$1.64M Year 4 and \$1.42M Year 5. As a percentage of compensation, Safety will increase from 44.75% in FY 2021-22 to 49.40% in FY 2026-27, and Miscellaneous will increase from 33.05% in FY 2021-22 to 35.20% in FY 2026-27.

CalPERS unfunded liability 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.

GENERAL FUND FIVE-YEAR FINANCIAL FORECAST



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 \$18.6M in this trust which includes \$2M of interest earned since inception. 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 2022-23 budget is based on the prior year with a CPI increase of 5 percent for Year 1, and 2 percent from Years 2 through 5. Departments will have to justify any net-new expenditure requests.

Debt Service – this reflects the General Fund portion of the debt service payments on the 2013 Certificate of Participation ending in 2023.

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.

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.

FUND BALANCE

As of June 30, 2021, the total General Fund balance was \$96.6M. 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 \$21.92M) is identified as a committed fund balance. The General Fund Unassigned Fund Balance available for future capital projects or other City projects/services had \$2.9M as of June 30, 2021.