



**Five Year Financial  
Forecast and General Fund  
Reserve Policy**

# Roadmap

- Purpose of the Five-Year Forecast
- Assumptions
- Forecast Review
- CALPERS Review by Dan Matusiewicz,  
GovInvest
- Options for Balancing the Budget
- Reserve Fund Policy

# Purpose of the Forecast

- Forward look at the city's General Fund and Landscape Maintenance Fund
- Financial trends, shortfalls, opportunities, and issues, proactive decisions
- Framework for the City Council and City Manager to make strategic decisions

# What the Forecast is Not



# Forecast Assumptions

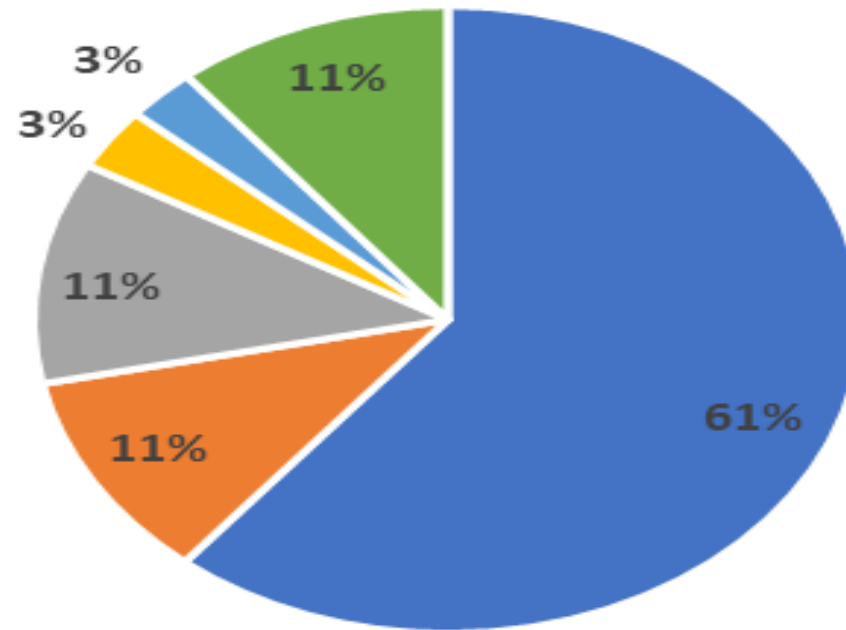
<u>Category</u>	<u>Assumptions</u>
Property Tax (all secured types except supplemental and transfer tax)	4% per year growth; slightly above the past few fiscal year increases
Unsecured Property Tax	3% per year; discussion with HdL
Supplemental Property Tax	\$40k per year
Transfer Tax	\$100k per year
Sales Tax	3% per year growth
Franchise Fees	Based on Trends; reflecting contract increases in PGE and Garbage fees
Interest	Maintains a 2% rate of return; assumes fund balance usage lowering total assets available
Other Revenue Sources	Based on trends/future current information

# Forecast Assumptions

<u>Category</u>	<u>Assumptions</u>
Salaries	Contracted step increases and COLAs. 3% annual increase for years not currently contracted.
Retirement	Based on actuarial estimates
Health/Dental Vision	Assumes a 6% annual increase
Services and Supplies	4% annual increase

# Major Revenue Sources

## Revenue By Type



■ Property Tax ■ Sales Tax ■ Franchise Fees ■ Business Licenses ■ Interest ■ Fee/Other Rev

# Revenue

- City receives approx. 6.6% of every dollar of general property tax (the 1% portion of the bill).
- Industry is limited offering moderate sales tax growth.
- Franchise Fees grow as fees grow but overall impact is limited.
- Other revenue sources also have small growth rates.



# General Fund

	FY 24	FY25	FY 26	FY 27	FY 28
Revenue	5,411,412	5,467,530	5,619,336	5,776,321	5,939,209
Expense	5,651,412	6,028,710	6,191,647	6,572,344	6,815,079
Net Surplus/ (Deficit)	(240,000)	(561,181)	(572,311)	(796,023)	(875,870)

# General Fund

- Major increases in salaries related to recent MOUs with the POA and Misc. Employees-increases needed for recruitment and retention.
- Health Care and Pooled Insurance continue to increase each year.
- CALPERS continues to rise with little city can do to control increases.

# Pension Funding Update & Cost Trends

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# 2021 CalPERS Board Decisions



## **ASSUMPTION CHANGES**

Reduced Discount Rate Assumption from 7% to 6.8%

Reduced Inflation Rate Assumption from 2.5% to 2.3%

Increased Wage Growth Assumption from 2.75% to 2.8%

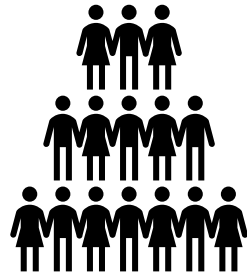
Other Demographic Assumptions Changes

# Assumptions Set Future Cost & Funding Expectations



## Economic

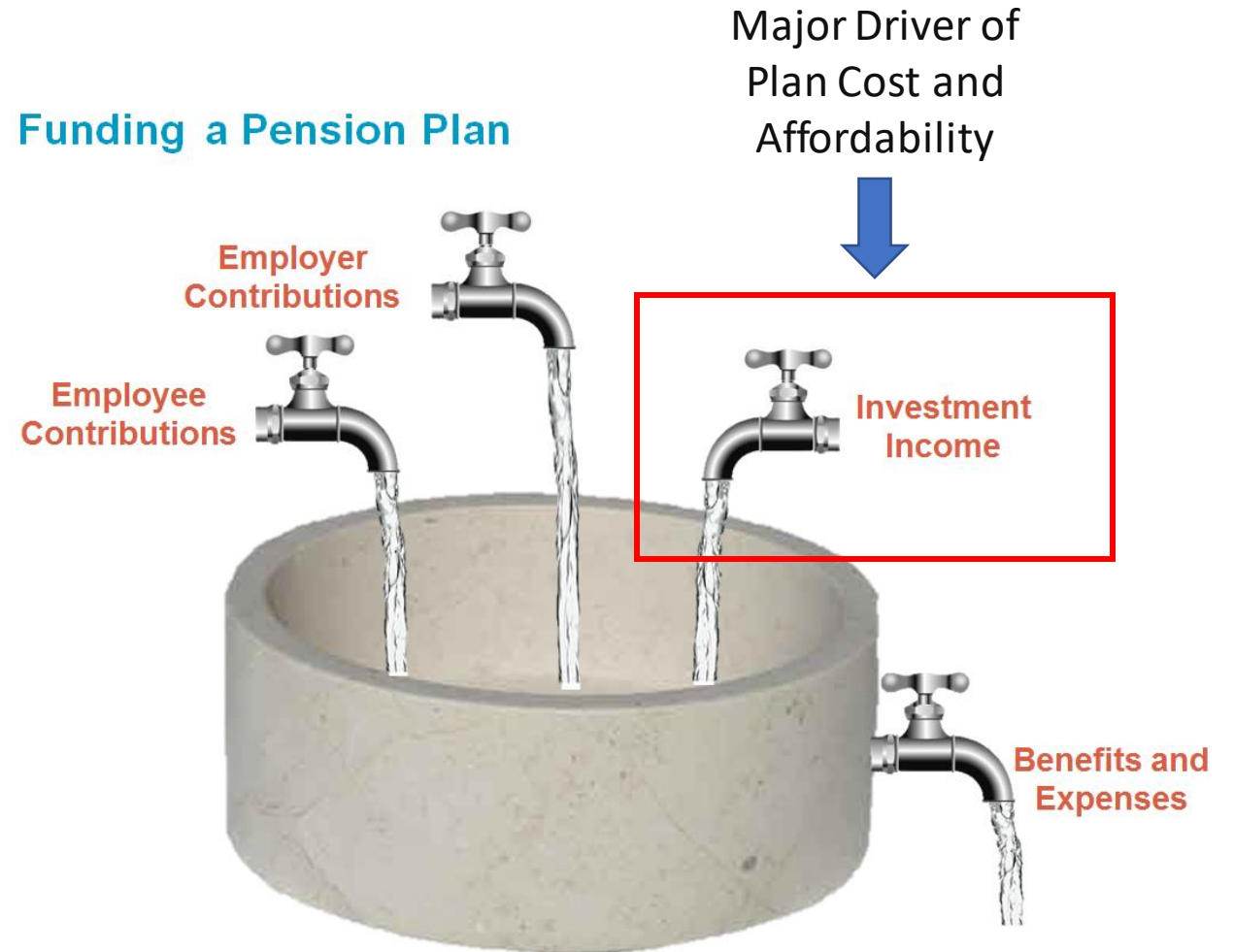
- Inflation
- Investment Return
- Salary Growth



## Demographic

- Retirement
- Disability
- Death
- Termination

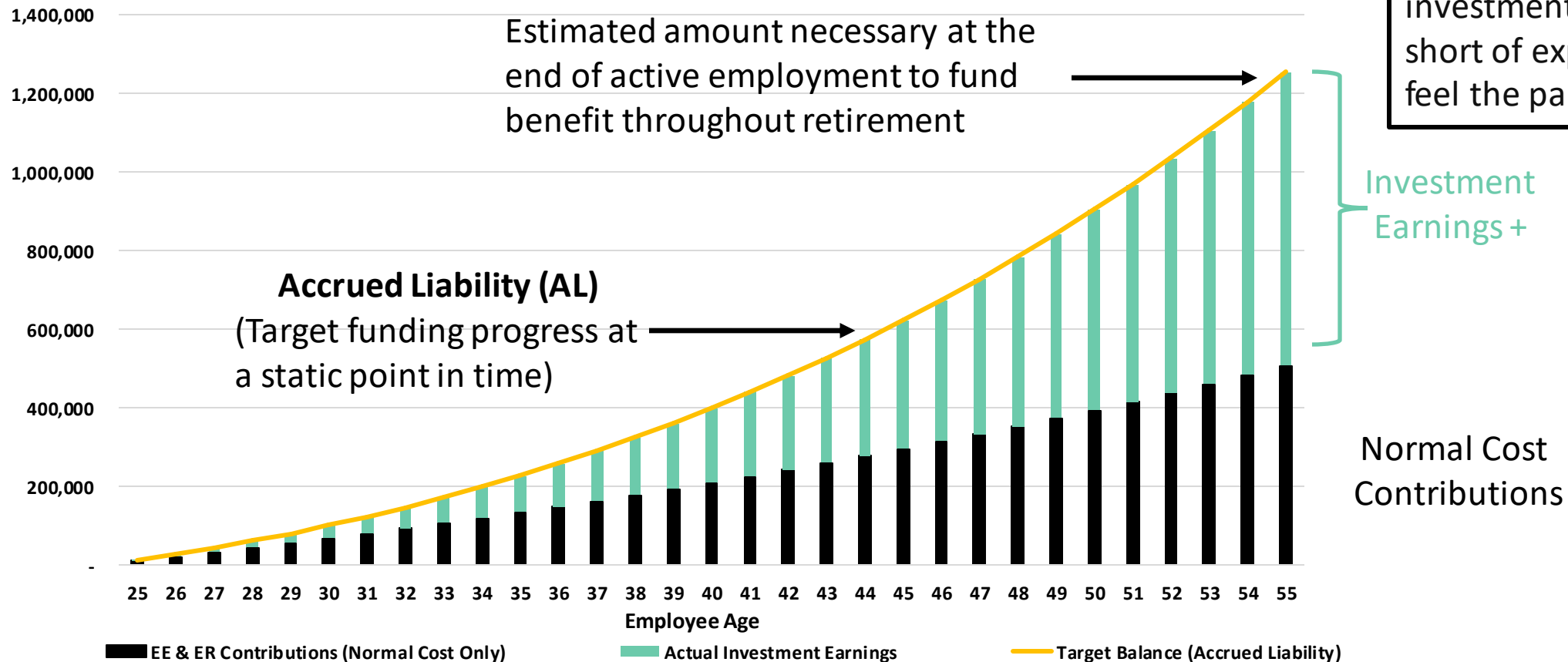
## Funding a Pension Plan



# Hypothetical Prefunding Example for Individual Employee's Retirement Benefit

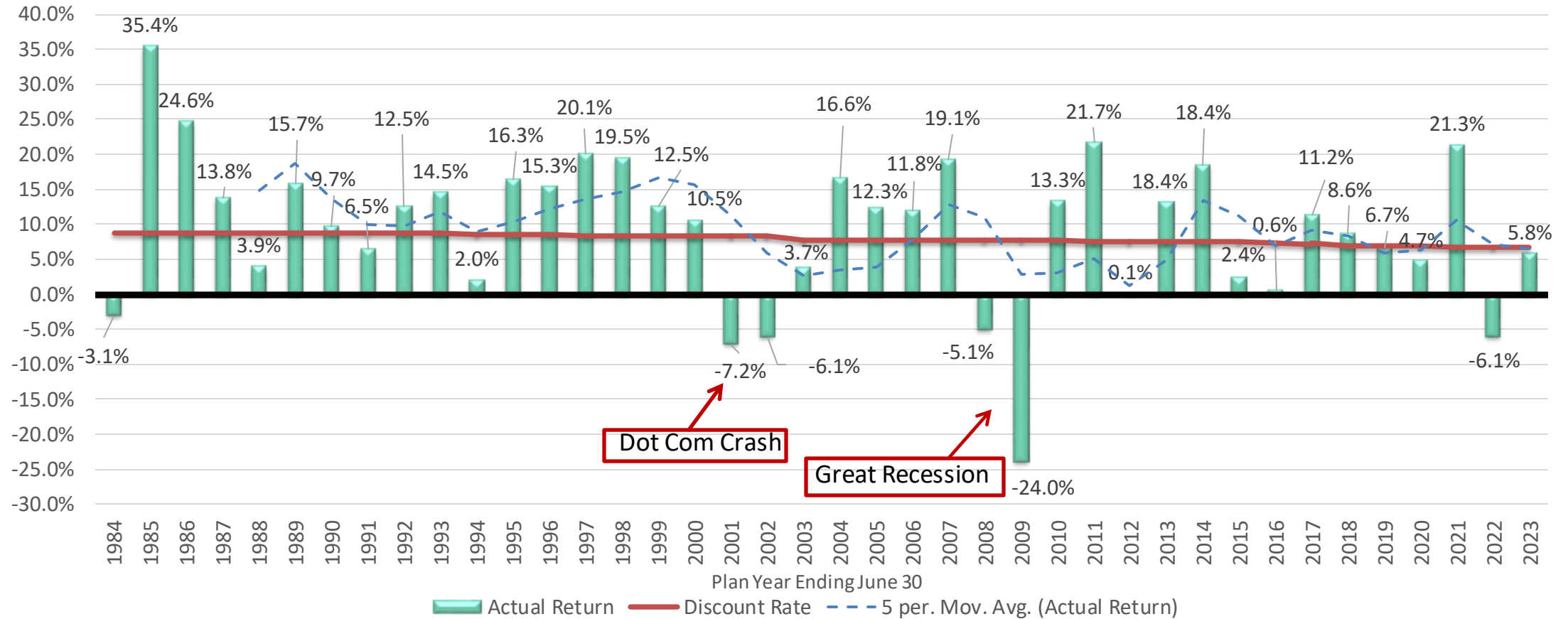


Illustration Only



Investment earnings are **presumed** to offset 50%-60% of the promised benefit. When investment performance fall short of expectations, employers feel the pain.

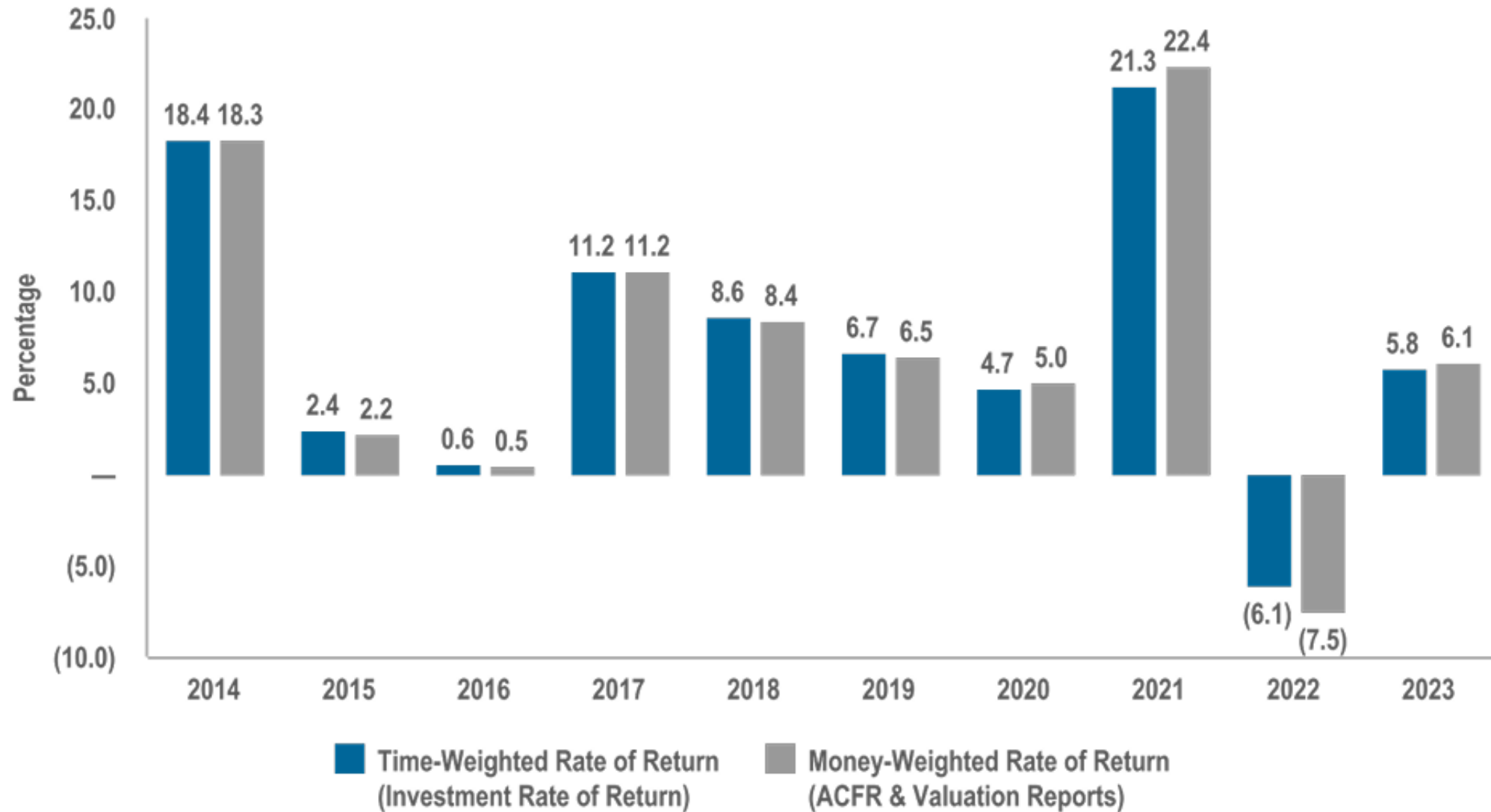
# CaPERS Historical Investment Returns



## Compound Annual Rates of Return through June 30, 2023

	1 Year	5 Year	10 Year	20 Year	30 Year
Compound Annual Return	5.8%	6.1%	7.1%	7.0%	7.5%

# Prelim and Final PERF Rates of Return





# How Has Your Agency Been Impacted?

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# Funded Status Trend



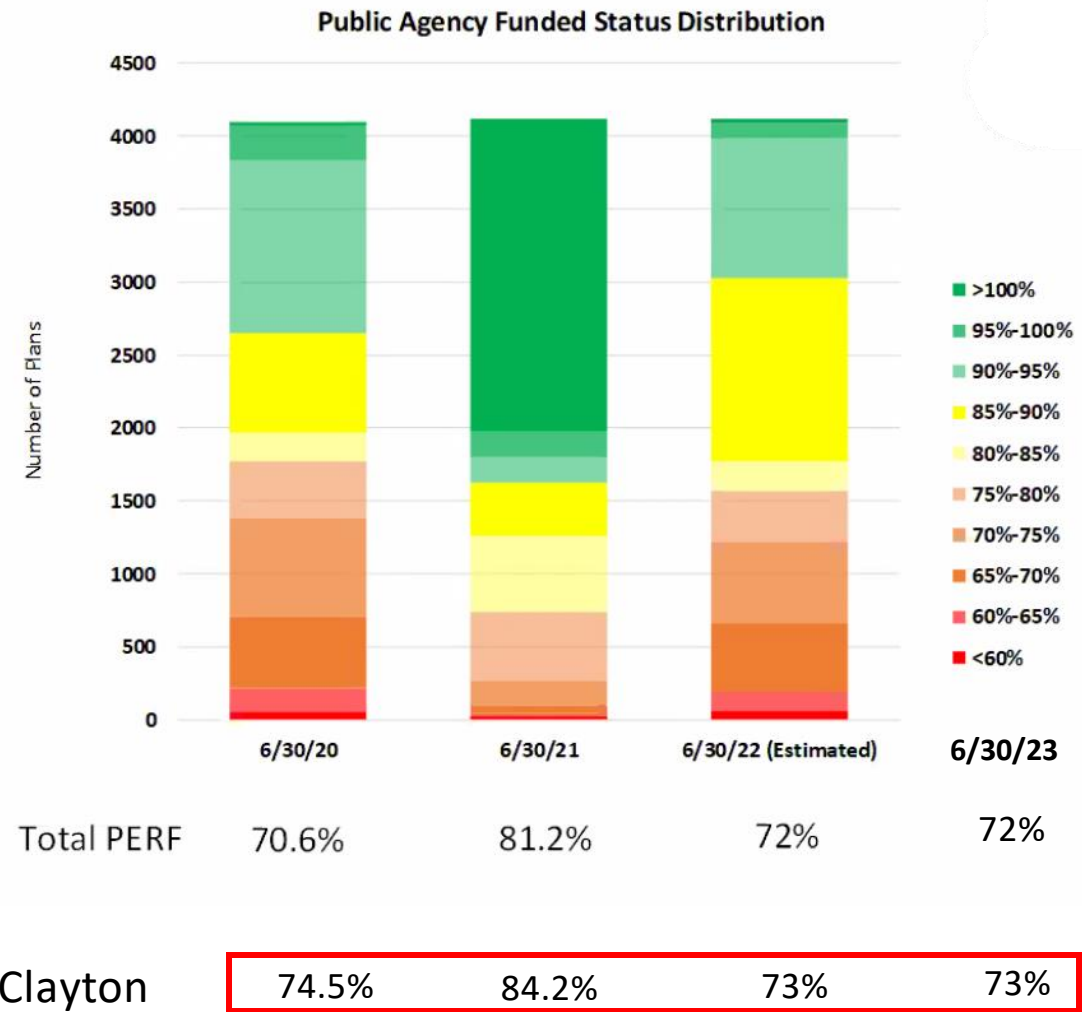
<b>Fiscal Year End (FYE)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Projected 2023</b>	<b>Change</b>
Accrued Liability (AL)	\$22,913,535	\$24,342,356	\$25,756,649	\$26,660,000	\$903,351
Market Value of Assets (MVA)	\$17,077,268	\$20,487,975	\$18,683,892	\$19,390,000	\$706,108
Unfunded Accrued Liability (UAL)	\$5,836,267	\$3,854,381	\$7,072,757	\$7,270,000	-\$197,243
<b>Funded Status</b>	74.53%	84.17%	72.54%	72.73%	0.19%
<b>Investment Return</b>					
Assumption	7.00%	7.00%	6.80%	6.80%	
Actual	5.00%	22.4%	-7.50%	5.80%	
Experience	-2.00%	15.40%	-14.3%	-0.70%	

# Comparison to Other Public Agencies



6/30/2022 Estimates —  
Public Agency  
Funded Ratios

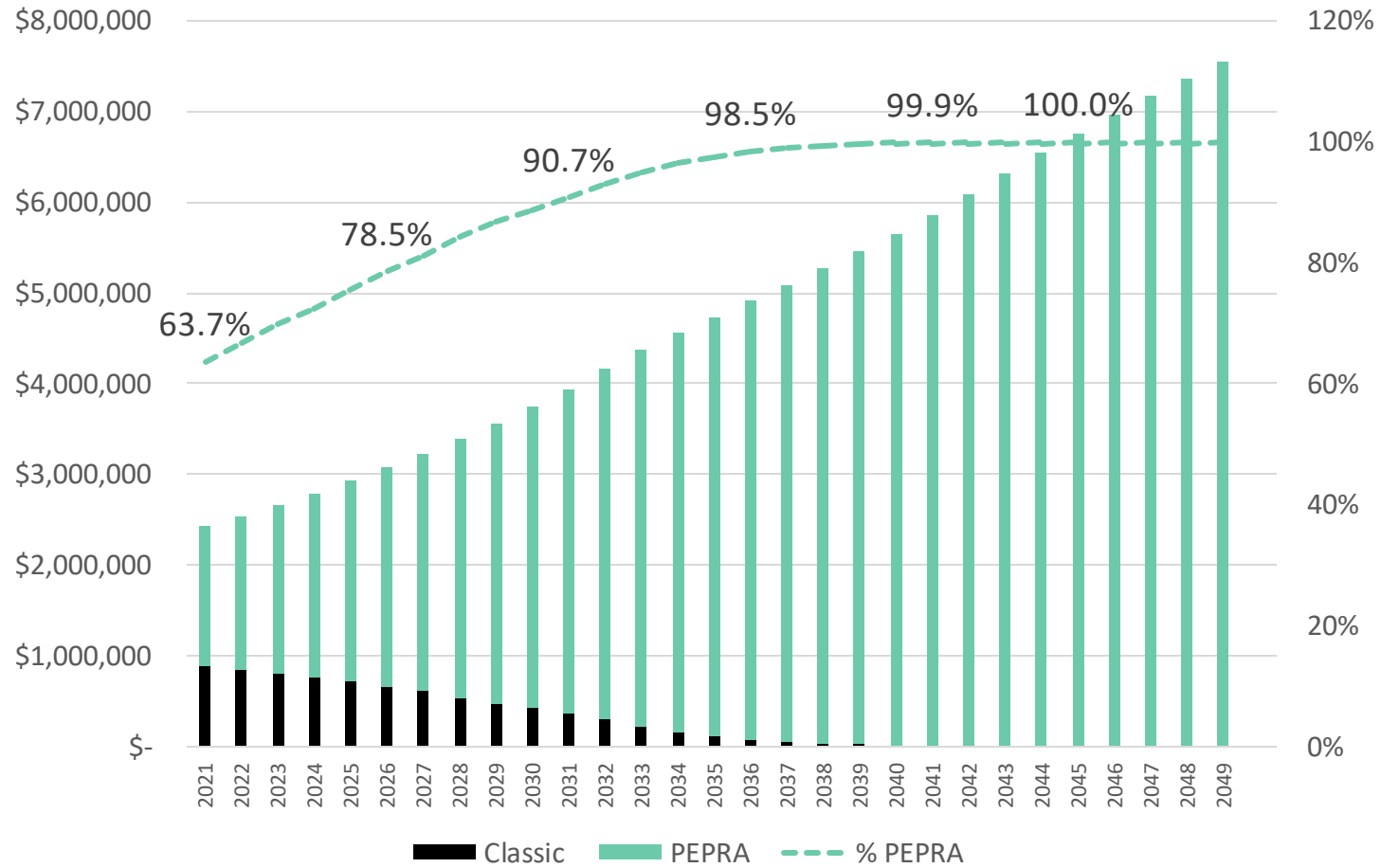
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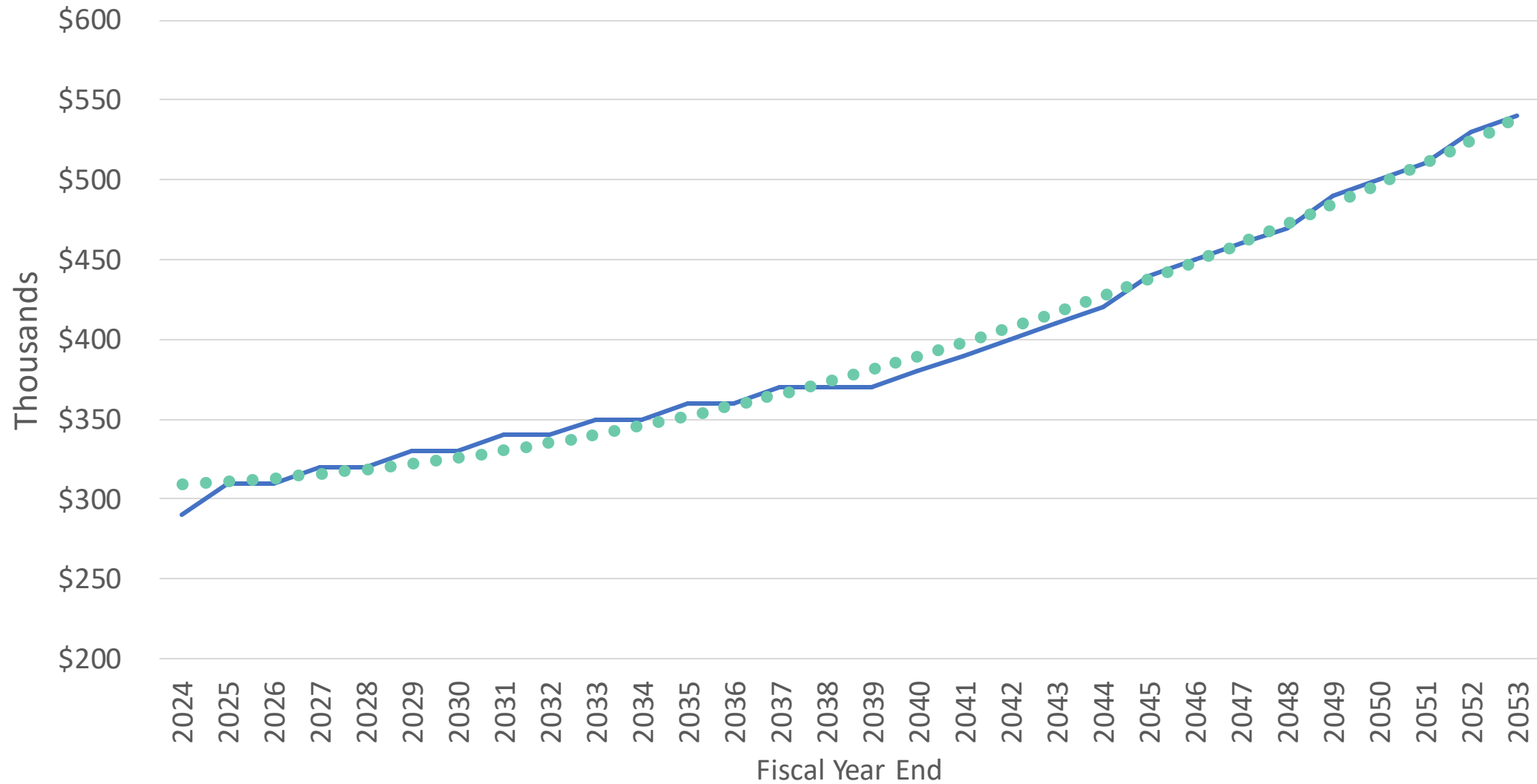
# Normal Cost Moving Forward

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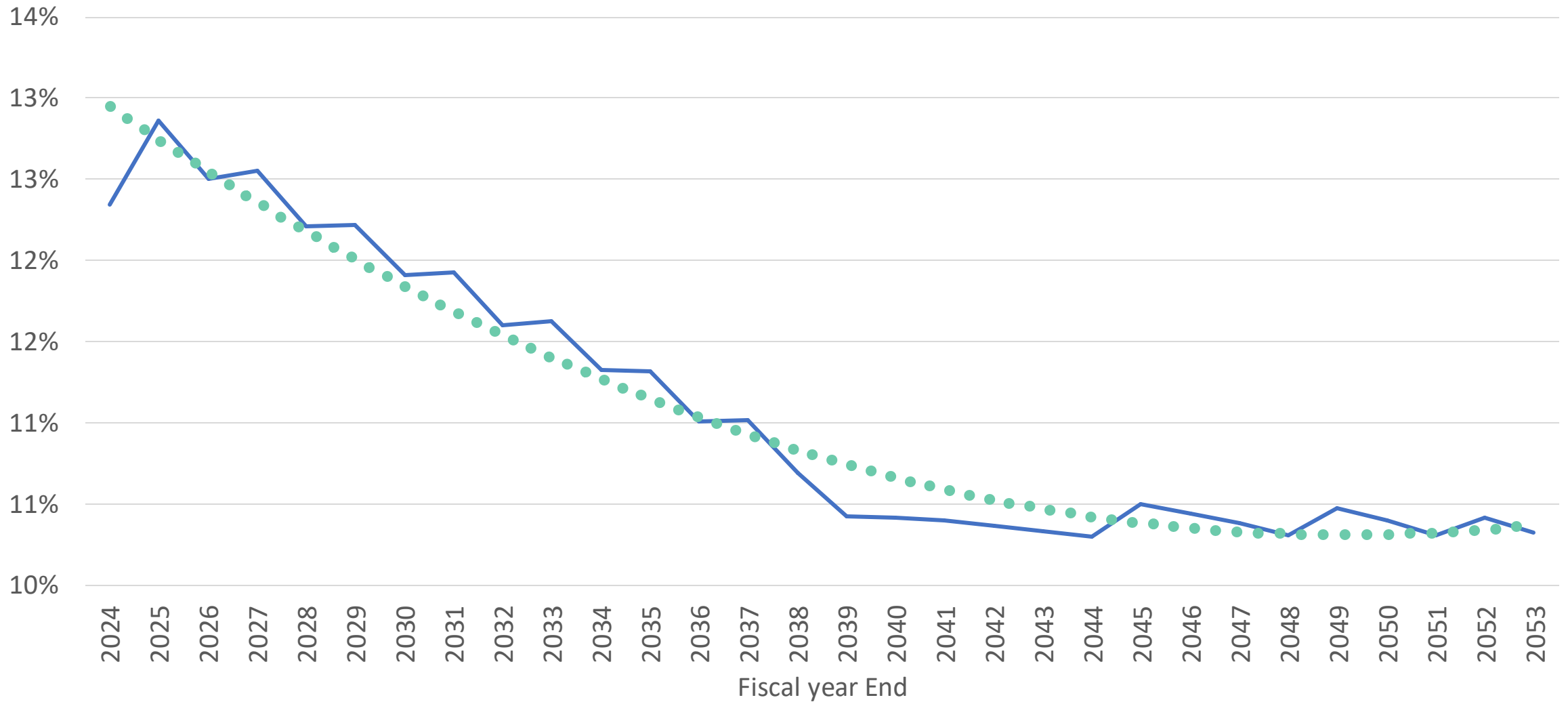
# Projected Classic vs PEPRA Payroll



# Normal Cost Impact – Nominal Dollars



# Normal Cost Impact – Percent of Payroll



# UAL Contribution Projection

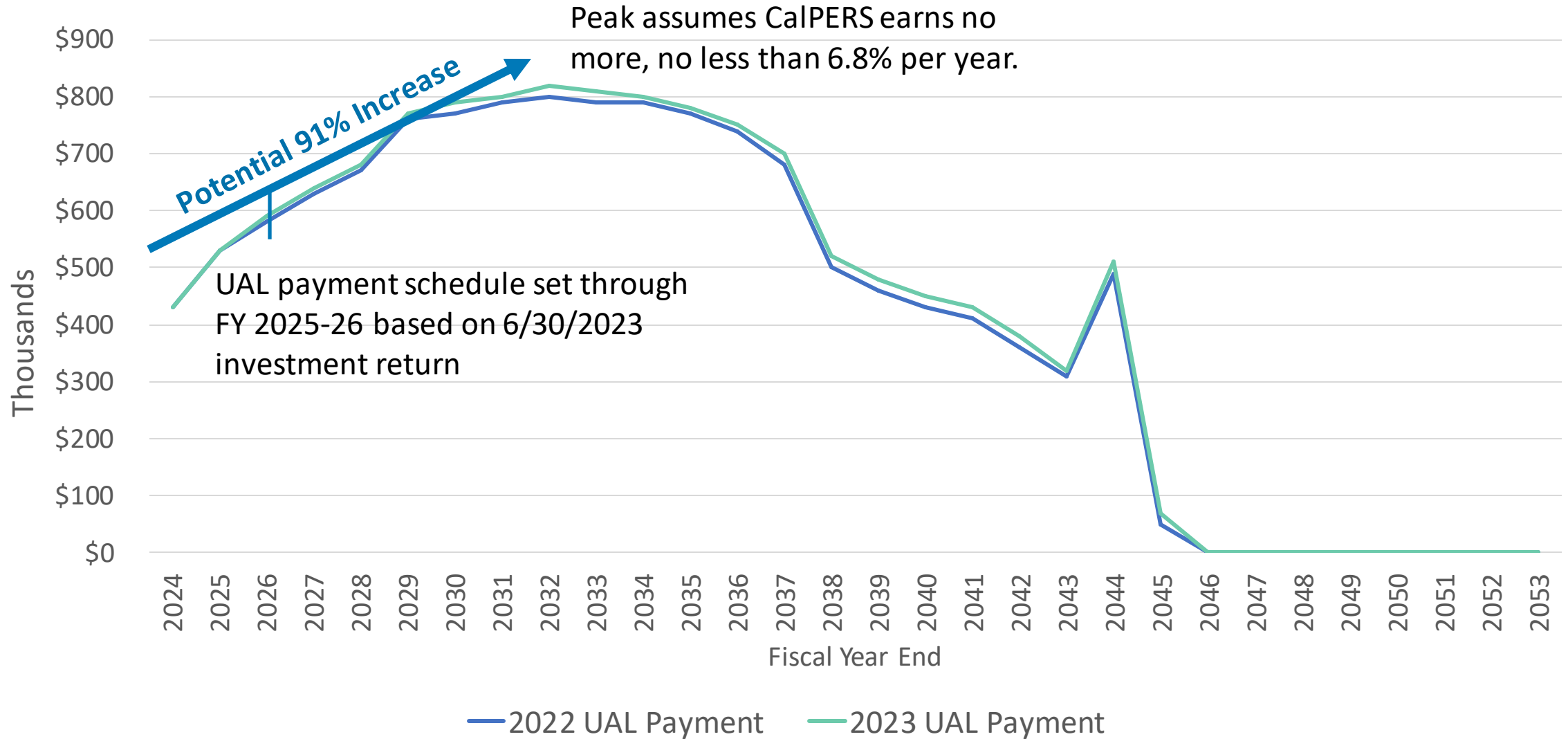
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# Impact on Annual Amortization Payment



# Landscape Maintenance Fund

	<b>FY 24</b>	<b>FY 25</b>	<b>FY 26</b>	<b>FY 27</b>	<b>FY 28</b>
<b>Revenue</b>	1,288,285	1,333,025	1,379,330	1,427,257	1,476,861
<b>Expenses</b>	1,267,797	1,403,284	1,455,286	1,488,967	1,542,400
<b>Surplus/(Deficit)</b>	<b>20,488</b>	<b>(70,260)</b>	<b>(75,955)</b>	<b>(61,710)</b>	<b>(65,540)</b>

# Landscape Maintenance District

- Increases in expenses assume the RFP contract of \$400K for vegetation management, medians, irrigation (ground level).
- Offset partially by reduction in temporary workforce and permanent staff charging to district (creates increase in GF)
- No decision on next steps is needed today; taken into consideration with General Fund decision

# Options for General Fund

- Revenue Measure
- ½ cent or 1 cent Transaction Use Tax (sales tax)
- ½ cent generates \$350K to \$450K per year
- 1 cent generates \$700K to \$900K per year
- ½ would not balance the budget through forecasted period

# Options for General Fund

<b>City</b>	<b>Sales Tax Rate</b>	<b>1/2 cent increase</b>	<b>1 cent increase</b>
Clayton	8.75%	9.25	9.75
Concord	9.75%		
Walnut Creek	9.25%		
Pleasant Hill	9.25%		
Moraga	9.75%		
Lafayette	8.75%		
Orinda	9.75%		
Richmond	9.75%		
Antioch	9.75%		
Oakley	8.75%		

# Options for General Fund

- Sales Tax impacts residents and visitors to the city.
- Timing would be November 2024 Election as to not impact the LMD Parcel Tax Vote in 2026
- Special Election could be called in 2025; probably around \$100,000 for election

# Options for General Fund

- Requires 4 votes of City Council to be placed on the ballot

# Options for General Fund

- Austerity-Service Level Reductions
- Reduce staff in planning and code enforcement
- Reduce non-sworn staff in the Police Department
- Reduce staff in Maintenance
- Reduce Parks and ball field maintenance



# Options for General Fund

- Eliminate all training unless required for a legal certification.
- Reduce vegetation management throughout the city that is not funded by the LMD.
- Impacts will be difficult to minimize in some areas.
- May make retention and recruitment difficult.

# Summary of Forecast and Options

- General Fund and LMD are in a period of structural imbalance.
- Reserves can be used to bridge funding for a few fiscal years but significant capital needs remain.
- Current revenue cannot sustain current service delivery.

# Summary of Forecast and Options

- Revenue option maintains current service levels with a lens to improving certain service areas.
- Austerity measures can balance the budget but will change the service levels of the city and may make retention and recruitment difficult.

# Reserve Fund Policy

- Current policy requires amending- General Reserve is too large (75% of GF expenses).
- Staff is recommending the General Reserve be reduced to 40% of General Fund expenses.

# Reserve Fund Policy

- Staff is recommending the following Assignments be created within the General Fund Reserves (in addition to current assignments)
- Assignment for Capital/Maintenance/Special Projects
- Assignment for Technology Replacement
- Assignment for Vehicle Replacement

# Reserve Fund

General Reserve Commitment	2,720,000	Per revised recommended policy= 40% of General Fund operating expenses. Pre-fund at estimated FY 2028 level
Assignment for Budget Stabilization	680,000	Per revised recommended policy-10% of General Fund operating expenses. Pre-fund at estimated FY 2028 level
Assignment for Capital Projects/Maintenance/Special Projects	3,200,000	
Assignment for Technology/Equipment	300,000	
Assignment for Vehicle Replacement	500,000	
Assignment for Pension Stabilization	300,000	

# Recommendations

1. Provide staff direction on moving forward with a sales tax on the November 2024 ballot or austerity measures (4 votes required to move forward with sales tax).
2. Approve the revised General Fund Reserve Policy.
3. Approve the Resolution outlining the allocation of the General Fund Reserves.