



FY 2013/14 Fall Financial Update

City Council Agenda Item 3.1
December 10, 2013

Agenda

1. Overview

2. Economic Update

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4. General Fund Five Year Forecast

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1. Overview

Update Highlights

- **FY 2012/13**

General Fund Unaudited Year End Closing Results:

- Fund Balance at \$22.5M; 19.4% of expenditures
- First time the reserve policy has been met since FY 2006/07

- **FY 2013/14 & forward** – updated forecast

- PERS rate changes
- Adopted MOU impacts incorporated
 - Increasing pension costs shared between City & employees
- Measure O baseline funding

- **Longer-term Focus**

- Long-Term Financial Plan – 1st quarter 2014
- Develop strategy/funding plan for unfunded obligations
 - Long-term pension obligation
 - Deferred maintenance – roads, parks, facilities
 - Expiration of Measure P

2. Economic Update

National Economic Update (1 of 2)

- US economy projected at 2% growth in GDP over the second half of 2013.
 - Fed. estimating 3.0% in 2014 and 2015
- 7.3% Unemployment Rate in October 2013, gradual improvement in the labor market continuing
 - Economy adding an average of 202K jobs per month over the past 3 months ending in October
- Waning consumer confidence
 - Retail sales projections expected to be 2.4% higher this holiday season than in 2012

National Economic Update (2 of 2)

- Housing recovery has slowed
 - Existing home sales declined for the second consecutive month in October while low inventory means home prices continue to rise
- Challenges still exist for economy in upcoming months
 - Slower than desired economic and job growth
 - While the economy is returning to normal, it is still operating well below what would have been expected prior to the most recent recession

Regional/Local Economic Update (1 of 2)

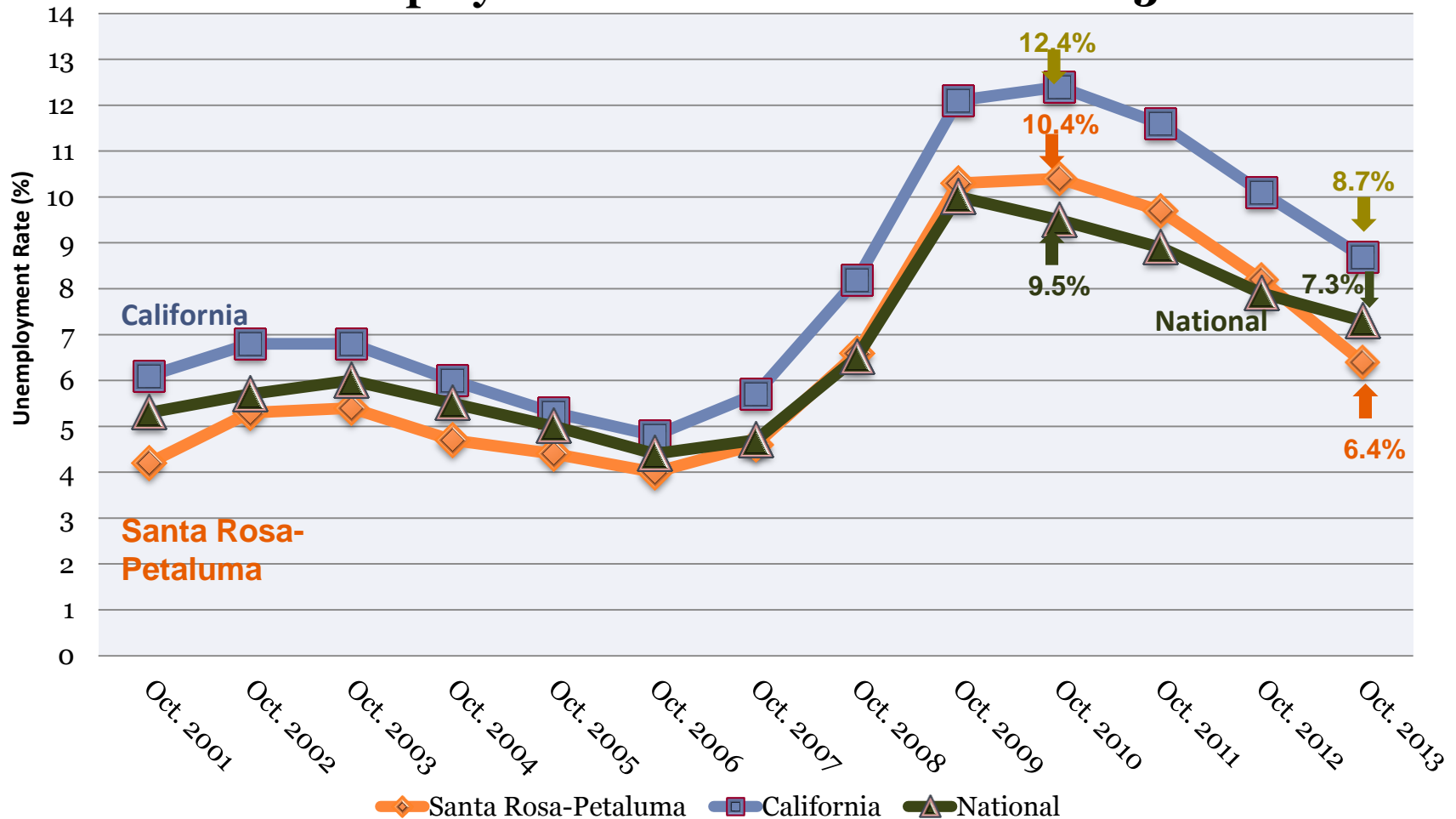
- California unemployment (seasonally adjusted) at 8.7% in October 2013 and declining
- Santa Rosa-Petaluma unemployment (seasonally adjusted) at 6.4% for October 2013
 - Jobless rate declined from 8.2% in October 2012
- Statewide sales tax revenues up 4.8% year over year for FY 2012/13, with Santa Rosa up 4.9% year over year

Regional/Local Economic Update (2 of 2)

- Business confidence, as measured by the Sonoma County Economic Development Board by a survey of local business executives' perception of current economic conditions, reached its record high in the summer of 2013
 - Agriculture, Technology, and Education have highest indicators for growth and expansion in Sonoma County over the next six months
- Median Home Sales price in Sonoma County at \$420K for October 2013, up 21.0% from October 2012
 - Home sales down 9.0% compared to October 2012

Unemployment Rates Improving

Unemployment Rates Oct. 2001- Oct. 2013



*Source: U.S. Bureau of Labor Statistics, Seasonally-Adjusted

Sonoma County Median Home Sales Prices Rebounding



3. FY 2012/13 Year End Preliminary Results

General Fund 2012/13 (Unaudited)

Year End Results - Budget to Actual (in million \$)

	2012/13 Adopted Budget	2012/13 Spring 2013 Forecast	2012/13 Year-End Results (Unaudited)	\$ Change From Budget	% Change From Budget
Revenues	\$119.8	\$124.9	\$125.7	\$5.9	4.9%
Expenditures/Net Transfers	118.4	121.0	119.6	1.2	1.0%
Net Results	\$1.4	\$3.9	\$6.1	\$4.7	

• Major Changes from Adopted Budget:

- Sales Tax up from original estimates \$1.7M
- Real Property Transfer Tax \$1.0M
- Intergov't Rev. (e.g. Police & Fire grants) \$0.8M
- Redev Property Tax Trust Fund Revenue \$0.6M
- Redev Loan Reserve \$0.6M
- PTAF settlement (one-time revenue) \$1.6M
- POB Refunding Transfer to Debt Service (\$1.6M)

4. General Fund Five Year Forecast

General Fund Five-Year Forecast

- **FY 2012/13**

- Includes unaudited FY 2012/13 actuals

- **FY 2013/14**

- Revenues updated based on FY 2012/13 results
- Expenditures updated to reflect impacts of new MOU's
Includes end of one-time/limited-term employee concessions

General Fund Five-Year Forecast

- **FY 2014/15 & forward**

- PERS actual City rates for FY 2014/15
- PERS rate estimates for FY 2015/16 forward per Bartel actuarial
 - Does NOT include impact of add'l PERS actions now being considered
- MOU impacts
 - increasing pension costs shared between City & employees
- Funds Meas O depts at estimated Meas O baseline levels
- Includes Golf Course debt service payment \$470,000 per year
 - Financial progress of Golf Course will be re-evaluated as part of quarterly financial updates
- Does **not** yet include costs for Council goal workplans

Fall Financial Update

FY 2013/14 General Fund Projected Revenues (in millions \$)

General Fund Revenue	2013/14 Adopted Budget	2013/14 Current Estimate	\$ Change From Budget	% Change From Budget
Property Tax	\$20.9	\$20.5	\$(0.4)	(1.9)%
Sales Tax (including Meas P)	38.8	39.7	0.9	2.3%
Utility Users Tax	9.5	9.8	0.3	3.2%
Vehicle License Fees	10.6	10.6	-	-
Other Taxes	17.8	18.7	0.9	5.1%
Permits, Fines & Charges	9.4	9.2	(0.2)	(2.1)%
Interfund Charges	12.0	11.7	(0.3)	(2.5)%
Recreation Revenues	3.9	3.6	(0.3)	(7.7)%
Intergovt, Interest & other	2.7	2.6	(0.1)	(3.7)%
Total General Fund Revenues	\$125.6	\$126.4	\$0.8	0.6%

General Fund Forecast Revenue Assumptions



General Fund Revenue	2013/14 Current \$ estimate <i>(in millions)</i>	2014/15 Growth %	2015/16 Growth %	2016/17 Growth %	2017/18 Growth %
Property Tax	\$20.5	1.0%	1.0%	1.0%	1.0%
Sales Tax (including Meas P)	39.7	3.0%	3.0%	3.0%	3.0%
Utility Users Tax	9.8	1.8%	1.8%	1.8%	1.8%
Vehicle License Fees	10.6	1.0%	1.0%	1.0%	1.0%
Other Taxes	18.7	3.0%	3.0%	3.0%	3.0%
Permits, Fines & Charges	9.2	2.8%	2.8%	2.8%	2.8%
Interfund Charges	11.7	1.0%	1.0%	1.0%	1.0%
Recreation Revenues	3.6	1.0%	1.0%	1.0%	1.0%
Intergovt, Interest & other	2.6	1.3%	1.3%	1.3%	1.3%
Total General Fund Revenues	\$126.4	2.1%	2.1%	2.1%	2.1%

General Fund Forecast Expenditures (\$ in millions)

General Fund Expenditure Category	2013/14 Adopted Budget	2013/14 Current \$ estimate	2014/15 \$ forecast	2015/16 \$ forecast	2016/17 \$ forecast	2017/18 \$ forecast
Salaries *	\$64.2	\$64.2	\$65.5	\$66.6	\$67.3	\$68.0
Pension costs **	18.7	18.0	18.7	19.5	20.4	21.3
Health Insurance	10.2	10.2	11.2	12.3	13.6	15.0
Other Benefit costs	2.5	2.5	2.6	2.7	2.8	2.9
Srvcs,Suppl; Other***	24.6	24.3	26.0	26.9	28.0	28.9
Information Tech.	3.4	3.4	3.6	3.7	3.9	4.1
Total G.F. Expend.	\$123.6	\$122.6	\$127.6	\$131.7	\$136.0	\$140.2
<i>% increase</i>			4.1%	3.2%	3.3%	3.1%

* reflects foregone COLA's contributed for pension costs, since 2003

** net of employee contributions toward employer pension costs

*** includes costs to bring department(s) to Measure O baseline funding levels—14/15 fwd 19

Fall Financial Update

General Fund Five Year Forecast (in million \$)

	<u>Actual</u>	<u>Prelim.</u> <u>Actual</u>	<u>F o r e c a s t</u>				
	<u>11/12</u>	<u>12/13</u>	<u>13/14</u>	<u>14/15</u>	<u>15/16</u>	<u>16/17</u>	<u>17/18</u>
Revenues	\$118.5	\$125.7	\$126.4	\$129.1	\$131.8	\$134.6	\$137.5
Net - Transfers In / (Transfers Out)	(0.1)	(3.3)	(2.1)	(2.5)	(2.4)	(2.3)	(2.3)
<u>Expenditures</u>	<u>114.9</u>	<u>116.3</u>	<u>122.6</u>	<u>127.6</u>	<u>131.7</u>	<u>136.0</u>	<u>140.2</u>
Net Results	3.5	6.1	1.7	(1.0)	(2.3)	(3.7)	(5.0)
<u>Solutions Needed to maintain Reserves at 17%</u>					\$1.5	\$1.5 2.9	\$1.5 2.9 1.3
<u>ENDING RESERVES</u>	\$16.4	\$22.5	\$24.2	\$23.2	\$22.4	\$23.1	\$23.8
<u>% of G.F. Expenditures</u>	14.3%	19.4%	19.7%	18.2%	17.0%	17.0%	17.0%

General Fund contingency reserve policy: 15%-17% of annual expenditures

5. Summary and Next Steps

Summary

- FY 2012/13 first time in 6 years City has met General Fund reserve policy target
 - Slowly improving economy, employee concessions, controlled spending have aided in the stabilization of City finances
- FY 2013/14 budget on track
- Structural deficit reduced but persists in out years
- Future planning going forward
 - Potential CalPERS policy change (Discount Rate & Mortality Assumption changes) – would increase pension rates/costs
 - Expiration of Measure P in 2019 – Long-term Financial Policy Subcommittee recommendations pending
 - Deferred maintenance funding – Long-term Financial Plan estimates pending
 - Establishment of pension stabilization fund – pending consideration

Next Steps

- Council goals review: mid-January 2014
- Public Hearing on Budget Priorities: February 2014
- Long-term Financial Plan review: 1st quarter 2014
- Council Long-Term Financial Policy Subcommittee is reviewing revenue options: pending Council review in 1st quarter 2014

Questions