

TRACY FINANCE COMMITTEE MEETING

Tuesday, February 27, 2024, 7:00 P.M.



Tracy City Hall Chambers, 333 Civic Center Plaza, Tracy
Web Site: www.cityoftracy.org

**THIS MEETING WILL BE OPEN TO THE PUBLIC FOR IN-PERSON AND
REMOTE PARTICIPATION PURSUANT TO GOVERNMENT CODE SECTION
54953(e)**

**MEMBERS OF THE PUBLIC MAY PARTICIPATE REMOTELY IN THE MEETING VIA
THE FOLLOWING METHOD:**

As always, the public may view the Tracy Finance Committee meetings live on the City of Tracy's website at CityofTracy.org or on Comcast Channel 26/AT&T U-verse Channel 99. To view from the City's website, open the "Government" menu at the top of the City's homepage and select "Finance Committee", then select "[View Finance Committee Meetings on YouTube](#)" under the "Boards and Commissions" section.

If you only wish to watch the meeting and do not wish to address the Finance Committee, the City requests that you stream the meeting through the City's website or watch on Channel 26.

Remote Public Comment:

During the upcoming Finance Committee meeting public comment will be accepted via the options listed below. If you would like to comment remotely, please follow the protocols below:

- *Comments via:*
 - **Online by visiting** <https://cityoftracyevents.webex.com> and using the following **Event Number: 2551 830 0456** and **Event Password: Finance**
 - ***If you would like to participate in the public comment anonymously***, you may submit your comment in WebEx by typing "Anonymous" when prompted to provide a First and Last Name and inserting Anonymous@example.com when prompted to provide an email address.
 - **Join by phone by dialing** [+1-408-418-9388](tel:+14084189388), enter [25518304546#3462623#](tel:+14084189388) Press *3 to raise the hand icon to speak on an item.

- *Protocols for commenting via WebEx:*
 - *If you wish to comment on the "Consent Calendar", "Items from the Audience/Public Comment" or "Regular Agenda" portions of the agenda:*
 - *Listen for the Chairperson to open that portion of the agenda for discussion, then raise your hand to speak by clicking on the Hand icon on the Participants panel to the right of your screen.*
 - *If you no longer wish to comment, you may lower your hand by clicking on the Hand icon again.*
 - *Comments for the "Consent Calendar" "Items from the Agenda/Public Comment" or "Regular Agenda" portions of the agenda will be accepted until the public comment for that item is closed.*

Government Code Section 54954.3 states that every public meeting shall provide an opportunity for the public to address the Tracy Finance Committee on any item, before or during consideration of the item, however no action shall be taken on any item not on the agenda.

Full copies of the agenda are available on the City's website: www.cityoftracy.org

CALL TO ORDER
ROLL CALL

1. CONSENT CALENDAR
 - 1.A Adoption of January 23, 2023, Meeting Minutes
 - 1.B Staff Recommends that the Tracy Finance Committee receive an informational report on the status of the City Council's FY2023-24 budget.
2. ITEMS FROM THE AUDIENCE - *In accordance with Council Meeting Protocols and Rules of Procedure*, adopted by Resolution 2019-240, a five-minute maximum time limit per speaker will apply to all individuals speaking during "Items from the Audience/Public Comment". For non-agendized items, Finance Committee members may briefly respond to statements made or questions posed by individuals during public comment; ask questions for clarification; direct the individual to the appropriate staff member; or request that matter be placed on a future agenda or that staff provide additional information to the Finance Committee.
3. REGULAR AGENDA
 - 3.A Staff recommends that the Tracy Finance Committee receive a report on the Five-year forecast for the City's General Fund and provide direction regarding the City's preliminary Fiscal Year 2024-25 Operating and Capital Budget.
4. STAFF ITEMS
5. COMMITTEE ITEMS
6. ADJOURNMENT

Posting Date: February 22, 2024

The City of Tracy is in compliance with the Americans with Disabilities Act and will make all reasonable accommodations for the disabled to participate in employment, programs and facilities. Persons requiring assistance or auxiliary aids in order to participate, should contact the City Manager's Office at (209) 831-6000 at least 24 hours prior to the meeting.

January 23, 2024, 6:00 p.m.

City Hall, 333 Civic Center Plaza, Tracy

Web Site: www.cityoftracy.org

CALL TO ORDER – Chairperson Arriola called the meeting to order at 6:00 p.m.

ROLL CALL – Roll call found Chairperson Arriola and Co-Chairperson Bedolla present.

1. CONSENT CALENDAR – Motion was made by Co-Chairperson Bedolla and seconded by Chairperson Arriola to adopt the Consent Calendar. Roll call found all in favor; passed and so ordered.

- 1.A. Approval of December 12, 2023, special meeting minutes. – **Minutes were approved.**

2. ITEMS FROM THE AUDIENCE – There were no items from the audience.

3. REGULAR AGENDA

- 3A. Staff recommends that the Tracy Finance Committee recommend that the City Council adopt a resolution accepting the City of Tracy’s Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2023.

Robert Harmon, Finance Accounting Manager, provided the staff report and sought committee feedback.

Committee asked clarifying questions.

There was no public comment.

ACTION: Motion was made by Co-Chairperson Bedolla and seconded by Chairperson Arriola that the Tracy Finance Committee recommend that the City Council adopt a resolution accepting the City of Tracy’s Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2023. Roll call found all in favor; passed and so ordered.

- 3B. Staff recommends that The Tracy Finance Committee recommend that the City Council adopt a resolution amending the City’s Operating and Capital Budget for the Fiscal Year ending June 30, 2024, and authorizing the Budget Officer to amend the City’s position control roster for FY2023-24.

Felicia Galindo, Budget Officer, provided the staff report and sought committee feedback.

Committee asked clarifying comments. Co-Chairperson Bedolla requested a brief update on how changes on state level talks on Ecommerce taxes and the business license tax could affect this or future talks about the budget.

Co-Chairperson Bedolla also asked if this report includes a CIP for a police sub-station. Felicia Galindo responded that currently there is not a CIP for a sub-station and noted that there will be a workshop and project update in the future. Assistant City Manager, Karin Schnaider noted that the new sub-station is added on the new Facilities Master Plan--the Public Safety Master Plan and the impact fees will come before the council in March for consideration and would go into effect 60 days after for the first time. It will come forward as an unfunded CIP because the current direction of the City Council is to use public safety fees for the work on fire stations in Cordes Ranch and a new fire station in the Ellis Development.

There was no public comment.

ACTION: Motion was made by Co-Chairperson Bedolla and seconded by Chairperson Arriola that the Tracy Finance Committee recommend that the City Council adopt a resolution amending the City's Operating and Capital Budget for the Fiscal Year ending June 30, 2024, and authorizing the Budget Officer to amend the City's position control roster for FY2023-24. Roll call found all in favor; passed and so ordered.

STAFF ITEMS – Sara Cowell, Director of Finance, welcomed new Finance staff member, Senior Accountant, Michael Raithel to tonight's meeting. Sara Cowell also noted that there are scheduling conflicts in the upcoming committee meetings for 2024 and will bring updated by-laws before Council at the next Council meeting to propose new meeting dates.

Karin Schnaider, Assistant City Manager, gave an update on the sales tax working group of the City Managers group of League of California Cities on sales tax. It will not be proposed as 100% destination based. Also, there was some consensus at the revenue and taxation meeting that they'd move forward with some discussion with CDTFA and county cost allocation methodology that currently does not have to go through legislation. It was done as an easy administration by CDTFA after the Wayfair decision and the out of state sales tax coming into the county and they did not know where it should go so, they allocated it on the county pool. This should be an easy change to move to destination based and won't impact the City's sales tax directly in that it is not generated here and would depend on what is purchased here. It would also give a better idea of what could change as it starts to talk about Ecommerce and warehouses that are located here. It puts less of a target on the City of Tracy because the City will get a disproportionate amount of the county pool because of the warehouses. Therefore, there is almost a double hit by spreading it out to where it belongs to a destination based, we will find that those cities get that bump automatically. Ms. Schnaider stated that it should be supported. It's not a consensus between all of the member agencies but it is what is Cal Cities is recommending. They are watching the bills that are being

introduced and they haven't heard anything regarding Ecommerce. Mr. Glazier is coming after tax rebates, and they'll continue to watch that. He is looking to eliminate all tax rebates in the state. If he changes that policy, then the City would not want to endorse that as we have three current tax rebates that would be affected by his bill. The one Cal Cities adopted is almost the same as the City of Tracy's. Ms. Schnaider will provide updates in the five-year forecast. Budget Officer, Ms. Galindo is on the same committees and is attending the meetings with Ms. Schnaider and the next meeting is in March and there will be an update provided.

4. COMMITTEE ITEMS – Co-Chairperson Bedolla is looking forward to having Council or Committee looking at balancing where the Master Plan Fees go in regard to building out the Fire Station Plan and Police Sub-Station Plan. Chairperson Arriola would like to get support to implement a policy regarding the prioritization of CIP projects and Co-chairperson Bedolla gave his support.
5. ADJOURNMENT – Time: 6:32 p.m.

ACTION: Motion was made by Chairperson Arriola and seconded by Council Member Bedolla to adjourn. Motion found all in favor; passed and so ordered.

The agenda was posted at City Hall on January 19, 2024. The above are action minutes. A recording is available on the City's website.

Chairperson

ATTEST:

Clerk

Agenda Item 1.B

RECOMMENDATION

Staff recommends that the Tracy Finance Committee receive an informational report on the status of the City Council’s FY2023-24 Budget.

EXECUTIVE SUMMARY

Staff prepared this semi-monthly informational report regarding the status of the Fiscal Year 2023-24 City Council budget.

BACKGROUND AND LEGISLATIVE HISTORY

The chart below depicts the status of the Fiscal Year 2023-24 City Council budget, as of January 31, 2024. The City’s fiscal year began July 1, 2023 and ends June 30, 2024. Reporting through January 31, 2024, the City Council’s budget is within the available balance for each account line.

ORG	OBJ	PROJECT	ACCOUNT DESCRIPTION	REVISED BUDGET	YTD EXPENDED	ENCUMBRANCES	AVAILABLE BUDGET	% USED
12561101	5101		Salaries	62,940	36,312	0	26,628	57.7%
12561101	5171		Fica/Medicare Taxes	4,538	2,778	0	1,760	61.2%
12561101	5181		Employee Benefits	38,197	23,335	0	14,862	61.1%
12561101	5212		Office Services	2,000	1,474	0	526	73.7%
12561101	5228	ARRIOLA	Travel, Training & Membership	20,000	975	0	19,025	4.9%
12561101	5228	EVANS	Travel, Training & Membership	20,000	0	0	20,000	0.0%
12561101	5228	DAVIS	Travel, Training & Membership	20,000	1,050	0	18,950	5.2%
12561101	5228	BEDOLLA	Travel, Training & Membership	20,000	78	0	19,922	0.4%
12561101	5228	YOUNG	Travel, Training & Membership	30,000	16,484	0	13,516	54.9%
12561101	5239		Professional Services	53,400	17,250	0	36,150	32.3%
12561101	5311		Supplies	3,000	1,647	800	553	54.9%
12561101	5335		Food	4,000	1,754	119	2,128	43.8%
			Total	278,075	103,137	919	174,019	37.1%

The Office Services line item is for expenditures related to printing and mailing.

Travel expenditures are allocated by Council Member. There are pending travel charges for Council Members related to recent and upcoming conferences, including the annual lobbying trip. The expenditures related to the travel are pending, as they were paid with a City Cal-card, resulting in a 30-day period of time before the expense is payable and reported in the general ledger.

Professional services are contracted services related to the implementation of the City Council’s Strategic Priorities. Included in the adopted FY2023-24 Professional Services line item is a contract with Cleargov for Strategic Priority tracking software, previously approved by the City Council.

The Supplies line-item is utilized for supplies utilized by the City Council such as office supplies, nameplates, name tags, plaques, keys to the City and City branded clothing.

With January being the 7th month of the fiscal year, the budget is expected to be approximately 58% expended. The City Council's overall budget is 37% expended for the fiscal year. All budget categories with the exception of supplies are less than 58% expended for the fiscal year. The supplies budget is 74% expended for the fiscal year.

The budget report is inclusive of expenditures occurring through January 31, 2024; however, it is important to note that some expenses do have a two-month delay. If a Cal Card was used for a purchase or has pending charges for recent travel, these expenditures may not be captured in the budget report.

The next semi-monthly report to the Finance Committee will be April 2024.

FISCAL IMPACT

The City Council's budget is funded through the City's General fund. There is no fiscal impact associated with this informational item.

STRATEGIC PLAN

This agenda item supports the Governance strategic priority, goal two, ensure short and long-term fiscal health.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the Tracy Finance Committee receive an informational report on the status of the City Council's FY2023-24 budget.

Prepared by: Sara Cowell, Director of Finance

Reviewed by: Bijal Patel, City Attorney
Karin Schnaider, Assistant City Manager

February 27, 2024

AGENDA ITEM 3.A

RECOMMENDATION

Staff recommends that the Tracy Finance Committee receive a report on the Five-year forecast for the City's General Fund and provide direction regarding the City's preliminary Fiscal Year 2024-25 Operating and Capital Budget.

EXECUTIVE SUMMARY

This item is to provide a report on the five-year forecast for the City's General Fund. A financial forecast allows the creation of a sustainable financial vision for the City. A forecast is a dynamic tool that allows for consideration of the most reasonable outcomes. The City's forecast will continue to be updated annually to allow the City to better anticipate future challenges and opportunities, thereby creating a solid foundation to make strategic decisions about the City's financial position. The forecast reflects economic estimations and assumptions based upon what is known today and provides guidance on what may be coming ahead. It should be used to provide guidance and policy direction to staff related to the development of the operating, capital, and liabilities budget.

In addition to providing the report, staff seeks direction on the City's preliminary Fiscal Year (FY) 2024-25 Operating and Capital Budget.

BACKGROUND AND LEGISLATIVE HISTORY

The City Council remains committed to maintaining fiscal sustainability while providing high quality public safety, public works, and community development to meet its existing and future needs. In 2023, the City Council adopted a two-year Strategic Priority Work Plan and identified desired outcomes related to the City's social, economic, organizational, and environmental priorities. The City Council adopted a governance strategy designed to enhance fiscal stability, retain and attract new talent, improve the use of technology, and enhance transparency for the betterment of the Tracy community. In response, a set of strategic priorities, goals and objectives were adopted to carry out the vision of the City Council. The Council's strategic priorities, along with their goals and objectives, are the foundation for development of the budget and forecast. In a February 2023 Council workshop, Council began the process of setting the 2023-2025 Strategic Priorities.

The City prepares a five-year fiscal plan annually as a tool for the Council to meet these strategic priorities and budget development. The City's fiscal strategy includes the creation of a financial forecast to evaluate current and future fiscal conditions and is to guide policy and programmatic decisions. As part of building the multi-year forecast, the City uses information based on past, current, and projected financial conditions and has developed and maintains several tools to provide analytic measurements of future fiscal impacts.

First, the forecast includes two separate actuarial studies to analyze the impacts of employee retirement benefits on the City's finances over time. One is focused on the fiscal impacts of pension and one on retiree medical costs. These reports are updated every 2-3 years based on Government Accounting Standards Board (GASB) rules. Secondly, the City has three separate studies on revenue forecasts based on economic trends surrounding short and long-term retail and housing markets. The City overlays each of these studies into the planning documents to create a multi-faceted approach to fiscal analysis and planning.

The goal of the City's annual Operating and Capital budget is to provide a plan that allocates resources to meet the needs and desires of Tracy's residents. It balances City revenues and costs with community priorities and requirements. In preparing for the FY 2024/25 Operating and Capital Budget, City staff reviewed the FY 2023/24 amended budget and estimated the expenditures and revenues anticipated for the upcoming fiscal year, FY 2024/25. These trends are then applied to the short term (first year) to see projected outcomes. It reflects current market conditions both for revenues and expenditures. The long-term (5-year) forecast applies more conservative revenue and expenditure trends that are indicative of the restrictiveness of revenues while applying current spending to measure the City's ability to sustain a fiscally balanced budget.

Economic Outlook

In 2022, the local economy saw housing prices continue to rise, which bolstered property tax and diversification of commercial and retail growth that strengthened the City's sales tax, hotel, and business tax revenues. In 2023, a shortage of homes for sale and high costs of borrowing had a negative impact on housing inventory and demand. With mortgage rates expected to decline over the next twelve months, it is expected the City will see a moderate increase in home prices.

The double-digit gains of the past two fiscal years have slowed in 2023 and consumer spending, while still positive, has slowed, with a focus on the balance between discretionary and demand spending. Rising consumer debt in auto loans are driving the reduction in discretionary spending by consumers. California's unemployment rate remains below 5%, while the San Joaquin County's unemployment rate has risen to 6.40%. The result of these factors is a continued overall slowing in the rate of General Fund revenue growth.

With that being said, the economy has natural growth and contractions that are outside of the City's control. Even with solid financial planning and long-term forecasting, not all future outcomes can be predicted. Knowing that, the City has positioned itself well by building financial reserves, adopting strong fiscal policies, and passing important revenue measures to support City services. However, even with these proactive steps, the City, like other agencies, will continue to be faced with unmet needs in an environment where resources are limited.

Creating a forecast has helped identify future revenue and expenditure trends that may have an immediate or long-term influence on government policies, strategic goals, funding obligations, or community services. The City uses the five-year financial forecast as a management tool to best anticipate inflows and outflows of

City resources in the short-term, then projects out these trends into the longer five-year model to ensure budget sustainability. Modeling of long-term strategies also allows marginal shifts to occur over time to maintain healthy reserves while still actively improving services to the public. The forecast has become an integral part of the annual and mid-year budget process.

General Fund Fiscal Challenges and Recovery:

Shortly after the adoption of the FY 2021/22 Operating and Capital Budget, the City received the January-March 2021 Sales Tax (Bradley Burns State Sales Tax) disbursement from the State of California Department of Tax Franchise Administration (CDTFA), which resulted in a significant change in the City's estimated revenues. The result was due to a recent change in tax reporting by a predominant sales tax producer. This reporting change shifted the tax allocation from a statewide allocation through the County sales tax pool where the tax was distributed pro-rata throughout the State to a local sales tax allocation based upon the businesses' point-of-sale or fulfillment of the sale. The change has had a significant impact on the City's General Fund revenues; nearly doubling the Sales Tax revenues for the City.

However, this revenue is not guaranteed as there is significant interest to have these funds reallocated to other jurisdictions. In 2022, CDTFA published a study related to sales tax specific to e-commerce, which reviewed the impacts of changing the method of sales tax allocation from the point of fulfillment to the point of delivery. The study showed that if this change occurred, the impact to the City would be 25% or greater from the City's current allocation. While no decision has been made, staff is tracking possible changes and their impacts. The forecast reflects a drop in sales tax beginning in FY2027-28.

With the 2022/23 operating budget, Council adopted a set of strategies for use of the General Fund surplus to City Council, which included pre-funding of CalPERS and retiree medical, funding to cover deferred maintenance for streets and parks, and a 3% increase to City services and programs. These fiscal sustainability strategies continued with the FY2023/24 operating budget and are included in the short-term forecast through FY2026/27.

In the long-term forecast, all but the program increases will stop being funded in FY 2027/28, the same year the potential Sales Tax revenues could be reduced. As a result, the five-year forecast shows that the General Fund is fiscally sustainable with the revenue growth from other tax sources and reduction in one-time funding commitments.

Table 1: Council Adopted Fiscal Sustainability Strategies

On-Going Revenue	Estimated % of Revenues	FY24/25	FY25/26	FY26/27
General Fund Revenues*		\$135,308	\$138,612	\$142,343
CalPERS Pre-funding	2%	\$2.7M	\$2.8M	\$2.8M
Retiree Medical Pre-funding	2%	\$2.7M	\$2.8M	\$2.8M
Road Improvements - Deferred Mtc.	3%	\$4.0M	\$4.1M	\$4.2M
Parks - Deferred Mtc.	2%	\$2.7M	\$2.8M	\$2.8M
City Services and Program Increase	3%	\$4.0M	\$4.1M	\$4.2M
Total		\$16.1M	\$16.6M	\$16.8M

*Revenues defined as total General Fund revenues less Measure-V Sales Tax and Transfers In

General Fund Fiscal Highlights:

Revenue Trends

Property Tax: New housing units being added to the assessor's roll, coupled with commercial developments in the community, and higher property values, have led to a steady increase in local property tax revenues over the last few fiscal years. In 2023, continued interest hikes drove a reduction in the sale of existing homes, however, new construction continued to thrive in Tracy. In 2023, Tracy saw an increase in new home sales of 35%, from 322 in 2022 to 434 in 2023. This is largely due to the combination of a lack of inventory of existing homes and Tracy's affordability in comparison to bay area home prices. Commercial and industrial real estate sales have continued to see moderate growth. As property tax revenue lags 12-18 months behind market conditions, the City estimates FY2024/25 will see some slowing in the real estate market with an estimated increase of 2-3%. Property tax will begin to grow in FY2025/26 by 4-5% annually over the following 4 years based on market turnover and valuation growth. In the long-term (5-year term), the City will see property tax slow to the 2% cap as allowed under Proposition 13.

Sales Tax (Bradley Burns): Over the last two fiscal years, the City's sales tax allocation from Bradley Burns rapidly increased as a result of changes from the CDTFA. The rapid growth seen in prior fiscal years has begun to slow as rising interest rates and inflation have slowed consumer spending. FY 2024/25's sales tax allocation is projected to decline by approximately 6%. FY 2025/26 is projected to regain a moderate amount of growth in the 2-3% range.

Sales Tax from Bradley Burns is now nearly 50% of the City's total General Fund revenues because of this recent taxpayer allocation change. The City is currently

tracking a policy discussion occurring within the League of California Cities to consider supporting legislation that would modify the allocation of Bradley Burns (1% of State Sales Tax) for ecommerce businesses statewide. This has the potential to have a significant impact to the City's Sales Tax revenues and its long-term forecast. As a result, staff continues to recommend that the 5-year forecast only shows the current Bradley Burns Sales Tax revenues from ecommerce in the short-term, until FY2026/27. The forecast has a phased decline of \$10M in FY 2027/2028, and a \$20M decline in FY 2028/29 to reflect the risk of the Sales Tax revenues being reduced. By placing this decline in the forecast, the City will have the flexibility to see the potential outcomes on a conservative basis to understand what these future impacts could generate.

Measure V Sales Tax (Local Sales Tax): In November 2016, the City Council and voters passed an additional ½ cent local sales tax (known as Measure V) that has a twenty-year sunset (expires April 2037). Over the last five years, the City Council has adopted several resolutions, which prioritized Measure V Sales Tax to fund multiple amenities located in the City: The Aquatic Center, Multigenerational Recreation Center, Legacy Fields Sports Complex, Ritter Family Ball Park, and the Nature Park. These capital expenditures demonstrate the City Council's Strategic Priority for improved Quality of Life and Economic Development.

Transient Occupancy Tax (TOT): The Transient Occupancy Tax (TOT), is a tax collected on hotel stays within the City of Tracy. The TOT is currently 10%. With tourism statewide remaining strong, the City has seen TOT revenues remain steady. There are currently two new hotels under construction and three approved, but not yet constructed. The City is also in review of an additional four proposed hotels. It is expected that the two under construction will be completed in the upcoming fiscal year and as a result, the City can expect to see an increase in TOT revenue.

Business License and Cannabis Tax: In November 2022, voters approved the modernization of the Business License Tax. The updated tax went into effect on July 1, 2023 and is based upon a percentage of gross receipts varying from 0.1% - 0.3%, depending on business category. The updated tax increased Business Tax revenues by approximately \$6M and provides vital funding for community priorities, such as improving City streets and roads, public safety, and recreation programs.

Additionally, Cannabis tax is an overlay component of business license tax classifications. The City Council and voters approved a Cannabis Tax in 2020, which provided a gross receipts tax on retail, distribution, and manufacturing and a square foot tax on cultivation. In July 2023, Tracy's first Cannabis business opened. There are currently two Cannabis businesses open in Tracy. Like the Business Tax, Cannabis taxes are based on the gross receipts of the business. It is estimated that FY2023/24 Cannabis revenues will be \$500,000 and in the longer term, revenues are expected to increase as the number of Cannabis businesses open in the City.

Expenditure Trends & Assumptions

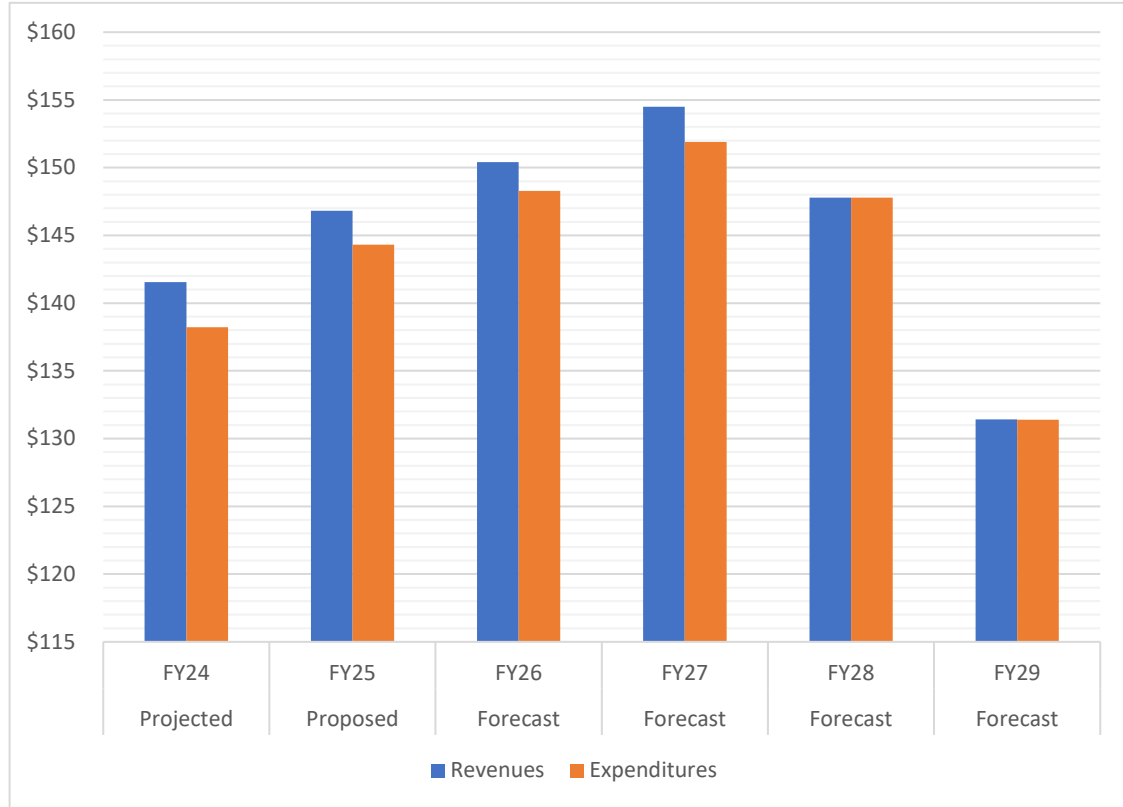
Because it takes people to provide services, the City's General Fund personnel costs are more than 50% of operating expenses. Drivers of cost as it relates to personnel expenses over the forecast horizon include but are not limited to: changes in labor agreements, health care, and CalPERS normal cost and unfunded liability. Included in the forecast is a 3.5% increase in personnel costs associated with negotiated labor agreements.

The General Fund forecast is based upon the assumption of full staffing levels. Although some attrition can be expected, it is difficult to rely upon personnel savings to reduce annual expenditures. In addition, it is uncertain when and where the vacancies may occur and their potential impact on service demands. It is not a good practice to rely upon salary savings as a permanent cost saving measure.

As a result of the COVID-19 pandemic, the Federal government issued the American Rescue Response Act (ARPA). The City of Tracy received an allocation of \$14.8 million through ARPA. The City has used these funds towards various one-time and ongoing community priorities, such as, infrastructure repairs, economic development and homelessness. All ARPA funds must be committed or spent by December 31, 2023, resulting in a transition in funding from ARPA to the City's General Fund. Included in the forecast is \$1.5M in ongoing expenditures that will transition to the General Fund.

The General Fund forecast includes an inflation factor of 3% for non-personnel expenses in the short term and flattens to 1-2% in the long-term. This factor is used to maintain the current buying power of the City. The inflation factor may result in the City's costs rising higher than the forecast and reducing the overall buying power. The City will continue to monitor the inflation rate on goods and services as it has historically outpaced the City's revenue growth due to regulatory restrictions on revenues. Staff will continue to monitor the costs of goods and services and their impacts on a quarterly basis.

Chart 1: 5-Year Revenue and Expenditure Projections



(In Millions)

GENERAL FUND RESERVES: The City’s General Fund is projected to have a surplus for the next three fiscal years, assuming the Sales Tax revenues collected today remain in place for the next three years.

**Table 2
 5-Year Forecast**

(in Millions)

	Projected	Proposed	Forecast	Forecast	Forecast	Forecast
	FY24	FY25	FY26	FY27	FY28	FY29
Revenues	\$142	\$147	\$150	\$155	\$148	\$131
Expenditures	\$138	\$144	\$148	\$152	\$148	\$131
Surplus/Deficit	\$4	\$3	\$2	\$3	\$0	\$0

Pre-funding Pension/Medical Leave Liabilities: Adopted in the FY2022/23 budget, the City Council approved the recommendations from City Council’s Fiscal

Sustainability Ad-Hoc Committee to begin setting aside funding for prefunding pension and retiree medical benefits, 2% of General Fund revenues, approximately \$4M each in the has been pre-funded to date and is anticipated to equate to \$3M in future fiscal years. The prefunding drops off in FY 2028 when Sales Tax is projected to decline.

Deferred Maintenance and Capital Improvement Projects: Included in the Forecast, is funding for deferred maintenance and capital improvement projects, such as road, building, and park improvement projects. Adopted fiscal sustainability strategies provide \$4M for road improvement deferred maintenance and \$3M for parks deferred maintenance. This funding drops off in FY 2028 when Sales Tax is projected to decline.

FISCAL IMPACT

There is no fiscal impact associated with this item. However, the five-year forecast is critical in establishing financial policy. The forecasted outcome has the potential to improve or worsen. Some potential outcomes that would improve the forecast would include higher employee vacancy rates (more vacant positions or vacancies for longer periods of time), delayed or weaker recessions, PERS investment gains, and stronger economic development activity beyond what is included in the forecast.

Potential outcomes that could worsen the forecast include: PERS investment losses (or additional discount rate cuts), weaker revenue growth, fewer new hotel rooms, delays, or closures in commercial activities, inflationary or recessionary losses, adjustment in labor COLAs, staffing beyond current levels assumed in the forecast, and unplanned, one-time expenditures.

STRATEGIC PLAN

This agenda item supports Governance Strategic Goal 3: Ensure Short and Long-term Financial Sustainability.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the Tracy Finance Committee receive a report on the Five-year forecast for the City's General Fund and provide direction regarding the City's preliminary FY 2024-25 Operating and Capital Budget.

Prepared by: Sara Cowell, Director of Finance

Reviewed by: Bijal Patel, City Attorney
Karin Schnaider, Assistant City Manager

Approved by: Midori Lichtwardt, City Manager

ATTACHMENTS

Attachment A – Five Year Forecast Power Point Presentation



**FINANCE COMMITTEE
FIVE-YEAR FORECAST
GENERAL FUND UPDATE FY 2024-2029**

February 27, 2024

Agenda

- Economic Outlook
- Revenue and Expenditure Trends
- Forecast
- Next Steps



Think Inside the Triangle™



Economic Outlook



Economic Trends

- Tracy's local economy has remained stable despite rising interest rates and inflation.
- Home sales have remained steady
 - Low inventory of existing homes has bolstered new home sales.
 - Tracy housing remains more affordable than neighboring Bay Area homes.
- Consumer spending has begun to slow
 - Discretionary spending has slowed, as rising interest rates impact household budgets.





Revenue and Expenditure Trends



Revenue Trends

- Property Tax
 - Short Term: 2-3% growth
 - Long Term: 4-5% growth
- Sales Tax
 - Short Term: 2% growth
 - Long Term: 3-4% growth in fiscal years 2025/26 and 2026/27
 - Estimated loss of \$10M in FY 2027 and \$20M in FY 2028 possible if ecommerce changes move forward

Revenue Trends, Continued

- Other Revenues
 - Business License tax
 - Short Term: 3% growth
 - Long Term: 1-2% growth
 - TOT
 - Short Term: 10% growth
 - Long Term: 20% growth
 - Cannabis tax
 - Short Term: 50% growth
 - Long Term: 3% growth

Expenditure Trends

- Salary and Benefits
 - Short Term: 3.5% growth
 - Long Term: 1-2% growth.
 - Only considers current employee contracts, expiring June 30, 2025
- Non-personnel
 - Short Term: 3% growth for standard inflation
 - Long Term: 1-2% growth
 - Current inflation rates are approximately 3.1%

Council Adopted Fiscal Sustainability Strategies

\$2.7M CalPERS (2% of revenues*)

\$2.7M Retiree Medical (2% of revenues*)

\$4.0M Deferred Maint. - Streets (3% of revenues*)

\$2.7M Deferred Maint. – Parks (2% of revenues*)

\$4.0M Program Increase (3% of revenues*)

\$16.1M budget increase FY25

*Revenues defined as total General Fund revenues less Measure V-Sales Tax and Transfers In



Think Inside the 'Triangle'

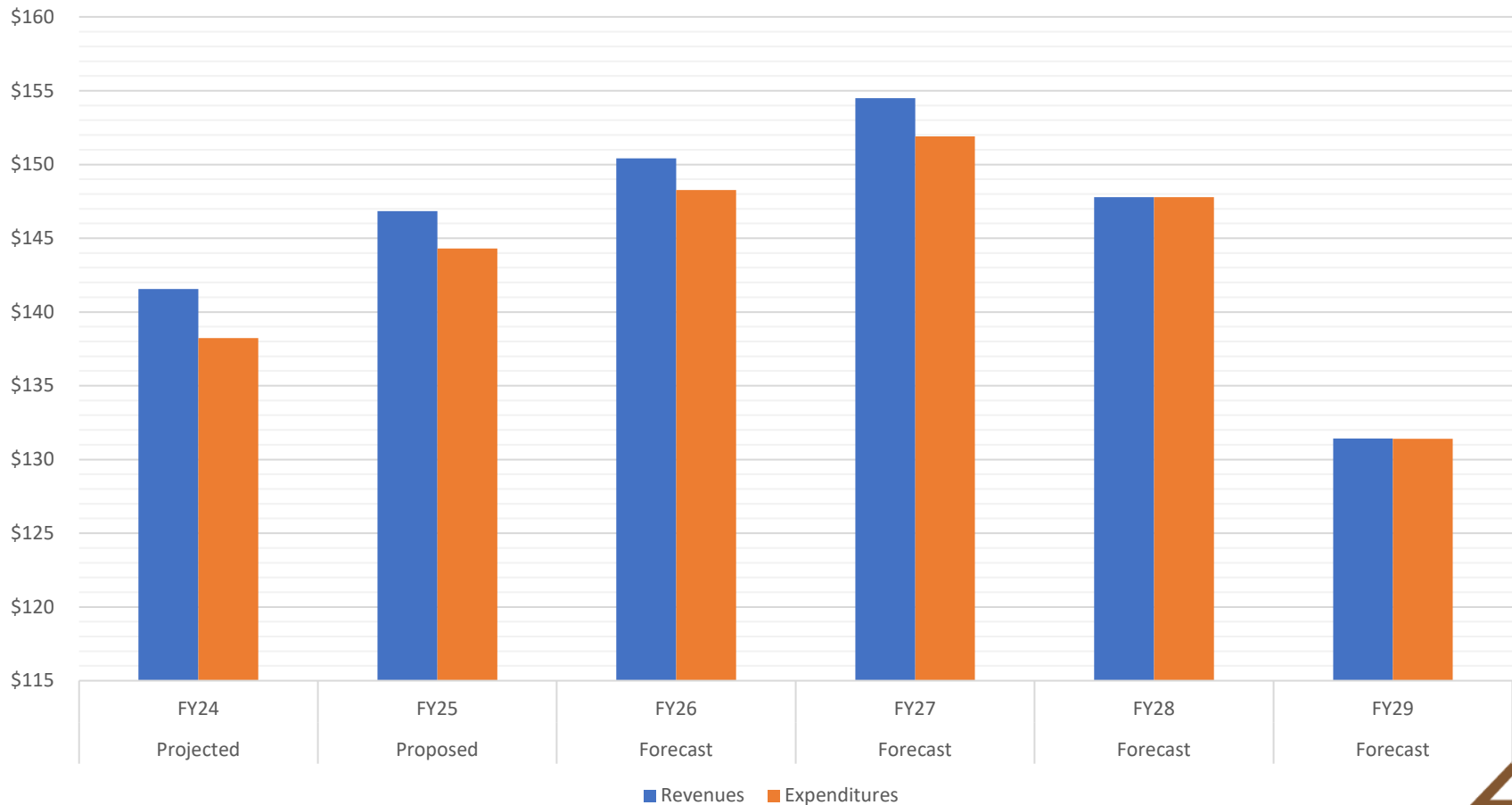
Forecast of Fiscal Sustainability Strategies

On-Going Revenue	Estimated	FY24/25	FY25/26	FY26/27
	% of Revenues			
General Fund Revenues*		\$135,308	\$138,612	\$142,343
CalPERS Pre-funding	2%	\$2.7M	\$2.8M	\$2.8M
Retiree Medical Pre-funding	2%	\$2.7M	\$2.8M	\$2.8M
Road Improvements - Deferred Mtc.	3%	\$4.0M	\$4.1M	\$4.2M
Parks - Deferred Mtc.	2%	\$2.7M	\$2.8M	\$2.8M
City Services and Program Increase	3%	\$4.0M	\$4.1M	\$4.2M
Total		\$16.1M	\$16.6M	\$16.8M

*Revenues defined as total General Fund revenues less Measure-V Sales Tax and Transfers In



General Fund 5-year Forecast FY 2024-2029



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General Fund 5-year Forecast FY 2023-2028

5-Year Forecast

(in Millions)

	Projected	Proposed	Forecast	Forecast	Forecast	Forecast
	FY24	FY25	FY26	FY27	FY28	FY29
Revenues	\$142	\$147	\$150	\$155	\$148	\$131
Expenditures	\$138	\$144	\$148	\$152	\$148	\$131
Surplus/Deficit	\$4	\$3	\$2	\$3	\$0	\$0

The City's General Fund is projected to have a surplus for the next three fiscal years, assuming the Sales Tax revenue allocation method remains in place.



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Sales Tax

- The City is tracking possible legislation change related to sales tax related to ecommerce.
- California Department of Tax and Fee Administration (CDTFA) studied changing the allocation method from point of fulfillment to point of delivery.
- The study showed that if such a change occurred, Tracy's allocation would be impacted by 25% or greater.



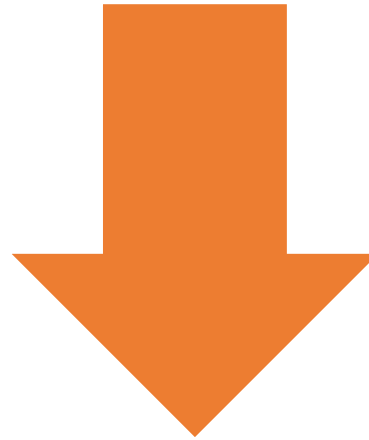
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Sales Tax, Continued

- Discussions are ongoing through the Cal Cities City Manager's Sales Tax Working group.
- Staff estimates any change to the sales tax allocation will occur in FY2027/28.
- The forecast reflects a \$10M decline in sales tax revenue in FY2027/28 and a \$20M decline in sales tax revenue in FY2028/29.



Offset Future Costs and Revenue Instability to Gain Fiscal Sustainability



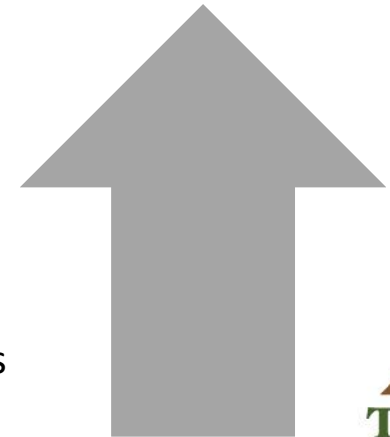
Projected Revenues/Expenses

- 10M decrease in sales tax revenue expected FY28
- 20M decrease in sales tax revenue expected FY29
- Expenses continue to rise



Prefunding Liabilities/New Revenue Sources

- Prefunding deferred maintenance
- Prefunding employee retiree benefits



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Use of Forecast

- The forecast is meant to provide the City Council with potential impacts that could have a long-term impact of the fiscal sustainability of the General Fund.
- It provides indicators based on current trends and potential impacts as they are known today.





Next Steps



Next Steps – Finance Committee

March 26, 2024

Staff will present the CIP Outlook and Department Augmentation Requests to the Finance Committee.

May 28, 2024

Staff will present the FY 2024-25 proposed budget to the Finance Committee.

Next Steps – City Council

March 5, 2024

Staff will present the five-year forecast to the City Council.

April 2, 2024

Staff will present the CIP Outlook and Department Augmentation Requests to the City Council.

June 4, 2024

Staff will present the FY 2024-25 proposed budget to the City Council.

Q & A

