



# CITY OF CORONADO

## CITY COUNCIL STAFF REPORT

April 4, 2023

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### **FISCAL YEAR 2023-24 BUDGET CALENDAR, BUDGET PRINCIPLES AND STRATEGIES, AND MULTI-YEAR FINANCIAL FORECAST THROUGH FISCAL YEAR 2027-28 FOR THE GENERAL FUND**

#### **RECOMMENDATION:**

Receive Fiscal Year (FY) 2023-24 Budget Calendar, Budget Principles and Strategies, and Multi-Year Financial Forecast through Fiscal Year 2027-28 for the General Fund, and provide direction as needed.

#### **BACKGROUND:**

The City of Coronado Annual Budget is a policy document expressing the City Council's goals and priorities for the coming year in the provision of government services. It is a financial plan showing the budgetary fund structure and configuration of how these funds are appropriated. The Budget also conveys longer terms budgetary issues, trends and service goals.

Annual preparation of the Budget is a significant undertaking and begins with the presentation of the following items to the City Council and community:

#### FY 2023-24 Budget Calendar

The FY 2023-24 Budget Calendar provides the anticipated dates for major milestones and events associated with the Fiscal Year 2023-24 Budget (Attachment 1).

#### Principles and Strategies for Budget Preparation and Implementation

The City relies upon a set of fundamental principles and strategies to guide the preparation of FY 2023-24 Budget (Attachment 2). As referenced in the document, the FY 2023-24 budget will incorporate certain City Council-approved fiscal policies and strategies, including the following:

- Facilities Replacement Fund
- Capital Improvement Projects
- Community Grants
- Pension Stabilization Fund
- Minimum General Fund Reserve

#### Multi-Year Financial Forecast through Fiscal Year 2027-28 for the General Fund

Staff is beginning development of the FY 2023-24 Budget and has prepared this multi-year financial projection of the General Fund as a starting point. Completing this forecast aims to identify trends, evaluate financial risk, assess the likelihood that services can be sustained at current levels, determine the level at which capital expenditures/investment can be made, and identify future commitments and resource demands. The financial projections also provide an opportunity to discuss key variables that impact revenue and expenditures.

**ANALYSIS:**

Staff forecasted the General Fund revenues, expenditures, and ending balances through FY 2027-28 using historical data and projected future trends, as contained in the following analysis. The analysis shows a summary of financial information with current and projected revenues, operating expenditures, and transfers for each of the next five fiscal years. Recent trends in property taxes, sales taxes, transient occupancy taxes, and other revenues have been recognized for the upcoming fiscal years.

**General Fund Revenue Projections**

	ESTIMATED 2021-22	ESTIMATED 2022-23	GENERAL FUND REVENUE				
			PROJECTED				
<u>Revenue from Taxes:</u>			2023-24	2024-25	2025-26	2026-27	2027-28
Property (Current)	35,364,149	37,407,136	\$ 38,903,421	\$ 40,265,041	\$ 41,472,992	\$ 42,717,182	\$ 43,998,698
Real Property Transfer	390,000	390,000	405,600	417,768	430,301	443,210	456,506
Franchise Fees	1,210,000	1,210,000	1,210,000	1,250,000	1,250,000	1,250,000	1,250,000
Sales & Use	3,310,300	3,853,423	4,046,094	4,167,477	4,292,501	4,421,276	4,553,915
Public Safety \$0.5 Sales Tax (Prop. 172)	316,000	316,000	387,000	387,000	387,000	387,000	387,000
Transient Occupancy	14,000,000	18,500,000	16,000,000	15,800,000	20,000,000	20,600,000	21,218,000
Sub-total Revenue from Taxes	54,590,449	61,676,559	60,952,116	62,287,286	67,832,795	69,818,669	71,864,119
<u>Revenue from Other Sources:</u>							
Licenses, Fines, Fees & Permits	290,700	303,900	309,978	316,178	322,501	328,951	335,530
Charges for Services	1,644,166	1,644,334	1,726,551	1,778,347	1,831,698	1,886,649	1,943,248
Intergovernmental & Other	3,665,099	3,478,910	2,215,000	1,715,000	1,715,000	1,715,000	1,715,000
Reimbursements	1,225,000	1,332,000	1,350,000	1,390,500	1,432,215	1,475,181	1,519,437
Use of Money & Property	255,373	279,490	600,000	618,000	636,540	655,636	675,305
Transfers In	1,100,000	1,000,000	-	-	-	-	-
Sub-total from Other Sources	8,180,338	8,038,634	6,201,529	5,818,025	5,937,954	6,061,417	6,188,520
<b>Grand Total General Fund Revenue</b>	<b>\$ 62,770,787</b>	<b>\$ 69,715,193</b>	<b>\$ 67,153,644</b>	<b>\$ 68,105,311</b>	<b>\$ 73,770,748</b>	<b>\$ 75,880,086</b>	<b>\$ 78,052,639</b>

Total Revenues are projected to increase from \$69.7 million in FY 2022-23 to a total of \$78.0 million in FY 2027-28. This is an average annual increase of approximately 2.4% through FY 2027-28. The revenue forecast for FY 2023-24 assumes continuing growth in property taxes with a modest increase in most other categories, except for the Transient Occupancy Tax (TOT).

The City projects a decrease of \$2.5 million and \$2.7 million in FY 2023-24 and FY 2024-25 TOT revenues due to planned construction for one of the hospitality properties, resulting in reduced revenue-generating rooms for an extended period. In addition, data suggest that companies have found that much of the previous businesses that depended on face-to-face meetings and substantial business travel can be done just as well over the internet, resulting in a level of permanent reduction in business travel. Nevertheless, the general trend and outlook for the TOT is positive as the current year's TOT revenue projects to exceed the pre-pandemic level, following a strong recovery in FY 2021-22.

Property Tax Revenue is projected to increase from the current level for FY 2022-23 of \$37.4 million to \$44.0 million in FY 2027-28. This represents a projected average annual increase of 3.5% per year for the five years.

Sales Tax Revenue is projected to increase by 5% in FY 2023-24 before tapering down to 3% in subsequent years, aligning to the current high inflationary environment, offset by reduced visitor spending and concerns of economic recession.

Collectively, property, sales, and Transient Occupancy Taxes revenue sources represent about 89% (average over the five projected years) of General Fund Revenues.

Revenues from Other Sources include the Intergovernmental category, which is expected to decrease with the completion of the State and Local Fiscal Recovery Fund (SLFRF) grants in FY 2022-23. Interest earnings, which constitute the bulk of the Use of Money and Property category, are projected for conservative increases through FY 2026-27 due to interest rate increases by the Federal Reserve as part of its efforts to slow historically high inflation. The following table presents the growth assumptions related to projected revenues in the next five years.

	GENERAL FUND REVENUE GROWTH ASSUMPTIONS						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Property Taxes	7.94%	5.8%	4.0%	3.5%	3.0%	3.0%	3.0%
Real Property Transfer Taxes	-0.17%	0.0%	4.0%	3.0%	3.0%	3.0%	3.0%
Franchise Fees	11.92%	0.0%	0%	3.3%	0%	0%	0%
Sales & Use Taxes	14.57%	16.4%	5.0%	3.0%	3.0%	3.0%	3.0%
Public Safety \$0.5 Sales Tax (Prop. 172)	-4.88%	0.0%	22.5%	0%	0%	0%	0%
Transient Occupancy Taxes	27.35%	32.1%	-14%	-1.3%	26.6%	3.0%	3.0%
Licenses, Fines, Fees & Permits	-58%	4.5%	2.0%	2%	2%	2%	2%
Charges for Services	-13%	0.0%	5.0%	3.0%	3.0%	3.0%	3.0%
Intergovernmental & Other	38%	-5.1%	-36.3%	-22.6%	0%	0%	0%
Reimbursements	0%	8.7%	1%	3%	3%	3%	3%
Use of Money & Property	-89%	9.4%	114.7%	3.0%	3.0%	3.0%	3.0%
Transfers In	0%	-9.1%	-100.0%	0%	0%	0%	0%
Total General Fund Revenues	12.15%	11.06%	-3.67%	1.42%	8.32%	2.86%	2.86%

## **General Fund Expenditure Projections**

<u>GF Expenditures</u>	GENERAL FUND EXPENDITURES						
	ESTIMATED	ESTIMATED	PROJECTED				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Personnel	\$ 35,173,607	\$ 37,986,069	\$ 39,199,159	\$ 40,637,596	\$ 41,703,190	\$ 42,797,195	\$ 43,920,373
Services & Supplies	15,939,004	16,675,722	17,182,958	17,698,447	18,229,400	18,776,282	19,339,571
Community Grants % of GF Revenue (Council Policy #28)	915,000	1,000,000	1,007,305	987,527	1,032,790	1,024,381	1,014,684
<b>Total Services &amp; Supplies</b>	<b>\$ 52,027,611</b>	<b>\$ 55,661,791</b>	<b>\$ 57,389,422</b>	<b>\$ 59,323,570</b>	<b>\$ 60,965,381</b>	<b>\$ 62,597,858</b>	<b>\$ 64,274,628</b>

Operating expenditures for the General Fund are projected to increase by an annual average of 2.4% (\$68.9 million in FY 2022-23 to \$77.4 million in FY 2027-28) over the next five years. Operating Expenditures are broken down into three main categories: Personnel, Services/Supplies/Property, and Transfers from the General Fund to other Funds.

**Personnel Expenditures:** These costs represent the largest cost element in the General Fund (about 58.4% of operating costs). Personnel costs in total are expected to increase by \$5.9 million to \$43.9 million (an average increase of 3.1%) through FY 2027-28. These projections incorporate the terms of the Memorandum of Understanding with the represented labor groups and similar projections for the self-represented group.

Pension costs have been one of the primary drivers of increased costs in the personnel category. After an incredibly strong investment performance in FY 2020-21, the investment losses of FY 2021-22 are now trending toward lower discount rates. The discount rate is an integral element of the actuarial assumptions used to calculate the required City contribution for unfunded accrued liability. For FY 2023-24, the discount rate will remain at 6.8%. Any changes to future discount rates would significantly impact the City's pension and corresponding personnel costs and will be closely monitored.

**Supplies, Services, and Community Grants Expenditures:** Primarily driven by high inflation, FY 2023-24 has a 5% multiplier applied to expenditures in this category, tapering down to 3% in the subsequent years. As shown below, the Community Grants are projected based on the percentage of the General Fund revenue as established under Council Policy #28.

## **General Fund Transfers Projections**

<u>Transfers to Sub-funds of the GF</u>	GENERAL FUND TRANSFERS						
	ESTIMATED	ESTIMATED	PROJECTED				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Recreation	\$ 2,875,000	\$ 4,200,000	\$ 4,300,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Community Development	250,000	2,725,000	800,000	800,000	800,000	800,000	800,000
General Insurance	-	500,000	800,000	840,000	882,000	926,100	972,405
Workers' Comp Fund	-	-	-	500,000	500,000	500,000	500,000
Pension Stabilization	1,550,000	550,000	-	-	550,000	550,000	550,000
Solid Waste & Recycling	272,000	280,000	280,000	280,000	280,000	280,000	280,000
Vehicle & Equipment Replacement	965,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
IT Equipment Replacement	880,000	500,000	800,000	800,000	800,000	800,000	800,000
Cultural Arts	195,450	195,450	195,000	195,000	195,000	195,000	195,000
<b>Sub-total Sub-fund of the GF</b>	<b>6,987,450</b>	<b>9,950,450</b>	<b>8,175,000</b>	<b>6,415,000</b>	<b>7,007,000</b>	<b>7,051,100</b>	<b>7,097,405</b>
<u>Transfers to Other Funds</u>							
Capital Improvement Projects	655,000	1,513,166	1,150,000	2,000,000	3,500,000	4,000,000	3,500,000
Major Capital Facilities Replacement	2,350,000	1,000,000	-	-	1,750,000	1,750,000	2,500,000
Storm Drain Enterprise Fund	500,000	820,220	400,000	300,000	200,000	-	-
<b>Sub-total Other Funds</b>	<b>3,505,000</b>	<b>3,333,386</b>	<b>1,550,000</b>	<b>2,300,000</b>	<b>5,450,000</b>	<b>5,750,000</b>	<b>6,000,000</b>
<b>Total Transfers from General Fund</b>	<b>10,492,450</b>	<b>13,283,836</b>	<b>9,725,000</b>	<b>8,715,000</b>	<b>12,457,000</b>	<b>12,801,100</b>	<b>13,097,405</b>
<b>Total General Fund Operating Expenditures &amp; Transfers</b>	<b>\$ 62,520,061</b>	<b>\$ 68,945,627</b>	<b>\$ 67,114,422</b>	<b>\$ 68,038,570</b>	<b>\$ 73,422,381</b>	<b>\$ 75,398,958</b>	<b>\$ 77,372,033</b>

**Transfer Expenditures Accounts:** As shown in the table above, this category accounts for transfers to the Sub-funds of the General Fund and other Non-General Funds. The use of separate self-balancing funds for functions such as Recreation, Community Development, Insurance, Solid Waste/Recycling, IT Equipment Replacement, and Vehicle/Equipment Replacement necessitates the use of transfer accounts (in the General Fund) in order to account for the allocation of General Fund resources to these activities.

For the Storm Drain Enterprise Fund, staff plans to conduct a rate fee study for a potential future rate adjustment, which projects to decrease the dependence upon transfers from the General Fund over the next five years. The table above shows the planned transfers over the next five years.

**Capital Projects and Facilities Replacement:** Following the Budget Principles and Strategies, the balance of available funds after application toward Operating Expenditures will be applied toward the City's General Capital Improvement Program (CIP). The projections reflect the 5-year CIP schedule and the result funding estimates based on the projects' timing and scope.

The City Council established the transfer to the Major Capital Facilities Replacement Fund in FY 2015-16. The contribution formula provides for the increase in the replacement cost due to inflation and would approximate \$1.5 million of recommended annual contribution. However, due to the anticipated reduction in revenue for the next two fiscal years, the forecast includes a temporary pause on contributions for FY 2023-24 and FY 2024-25, before recommencing in FY

2025-26. Contributions from FY 2025-26 to FY 2027-28 projects to be higher than the recommended annual amount of \$1.5 million, ranging from \$1.75 million to \$2.5 million. The Major Capital Facilities Replacement Fund's estimated fund balance is \$11.3 million on June 30, 2023.

**Pension Stabilization:** In 2015, the City established an irrevocable trust account to contribute savings from the advance payments made to CalPERS, reducing the City's annual employer contributions. Assets placed in trust allowed for greater diversity in investment allocations designed to provide higher returns over time, based on risk tolerance level set by the City.

Similar to the Facilities Replacement Fund, the forecast includes a temporary pause on contributions for FY 2023-24 and FY 2024-25, before recommencing in FY 2025-26. Based on CalPERS's most recently published report, the City's Miscellaneous Pension Plan has a funded status of 88.3% as of June 30, 2021. While this ratio will drop for June 30, 2022 valuation (to be published in July 2023) with a preliminary CalPERS investment return of -7.4% for FY 2021-22, Coronado's status expects to remain healthy and above the consolidated CalPERS funded ratio. Furthermore, this funded 88.3% status does not include the pension stabilization irrevocable trust account balance of \$12.7 million as of June 30, 2022.

### **General Fund Sources and Uses of Funds Projections**

	GENERAL FUND SOURCES & USES OF FUNDS						
	ESTIMATED	ESTIMATED	PROJECTED				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
BEGINNING BALANCE	\$ 55,079,111	\$ 55,329,837	\$ 56,099,403	\$ 56,138,625	\$ 56,205,367	\$ 56,553,734	\$ 57,034,862
Revenues	62,770,787	69,715,193	67,153,644	68,105,311	73,770,748	75,880,086	78,052,639
Expenditures & Transfers:							
Personnel Costs	35,173,607	37,986,069	39,199,159	40,637,596	41,703,190	42,797,195	43,920,373
Services, Supplies & Property	16,854,004	17,675,722	18,190,263	18,685,974	19,262,191	19,800,663	20,354,255
Transfers to Sub-funds of GF	6,987,450	9,950,450	8,175,000	6,415,000	7,007,000	7,051,100	7,097,405
Transfers to Other Funds	3,505,000	3,333,386	1,550,000	2,300,000	5,450,000	5,750,000	6,000,000
Sub-total Expenditures and Transfers	62,520,061	68,945,627	67,114,422	68,038,570	73,422,381	75,398,958	77,372,033
Net Increase (Decrease) of Revenues - Expenditures & Transfers	250,726	769,566	39,222	66,741	348,368	481,128	680,606
ENDING FUND BALANCE	\$ 55,329,837	\$ 56,099,403	\$ 56,138,625	\$ 56,205,367	\$ 56,553,734	\$ 57,034,862	\$ 57,715,468

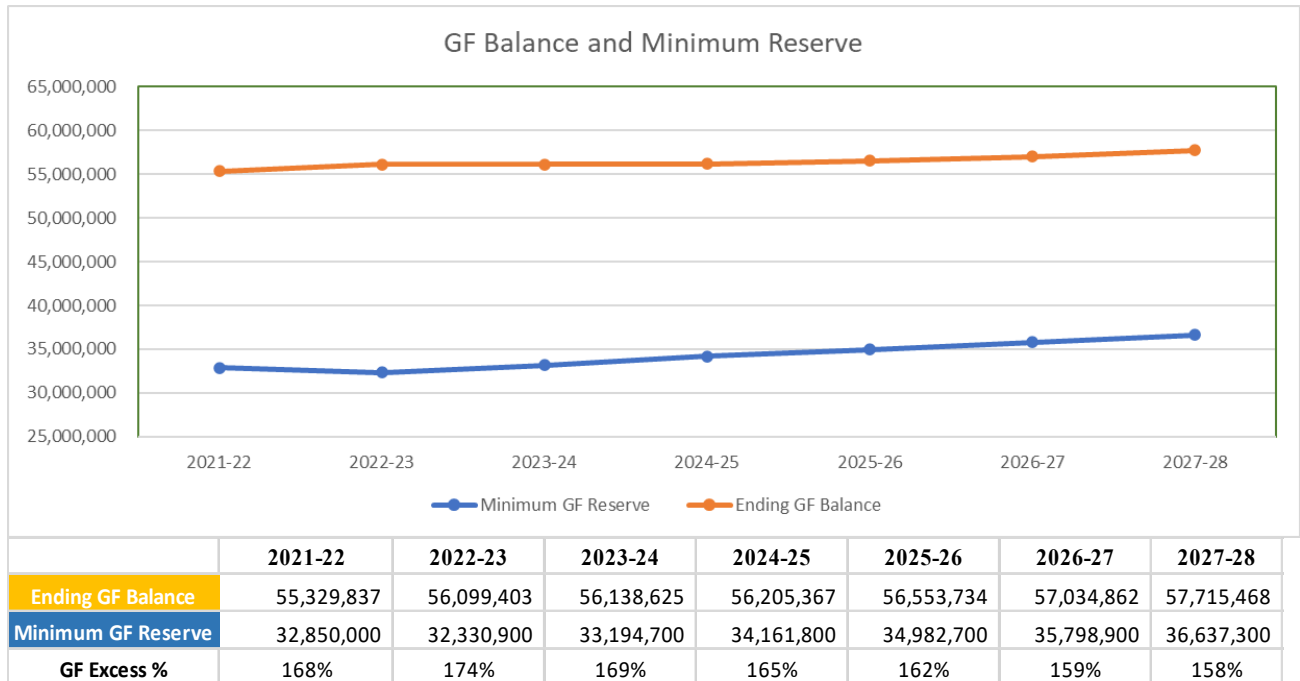
**Sources and Uses of Funds:** The above table shows the summary results of Revenues (Sources of Funds) and Expenditures (Uses of Funds) for the five-year period from FY 2023-24 through FY 2027-28. The impact of a temporary reduction in TOT revenues for FY 2023-24 and FY 2024-25 will be mitigated by continued increases in other revenue sources and a reduction in the General Fund transfers to other funds. This strategy will help the City maintain a balanced General Fund budget for the next five years.

**GENERAL FUND SOURCES & USES OF FUNDS**

	ESTIMATED	ESTIMATED	PROJECTED				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
ENDING FUND BALANCE	\$ 55,329,837	\$ 56,099,403	\$ 56,138,625	\$ 56,205,367	\$ 56,553,734	\$ 57,034,862	\$ 57,715,468
Minimum Reserve Requirement:							
six months operating expenditures not including transfers	(28,350,000)	(27,830,900)	(28,694,700)	(29,661,800)	(30,482,700)	(31,298,900)	(32,137,300)
Committed for Capital Improvement Projects	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)
Committed for Historic Preservation	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)
Total Minimum Reserve Requirement	(32,850,000)	(32,330,900)	(33,194,700)	(34,161,800)	(34,982,700)	(35,798,900)	(36,637,300)
<b>Ending Fund Balance Exceeding Minimum Reserve (f - g)</b>	<b>\$ 22,479,837</b>	<b>\$ 23,768,503</b>	<b>\$ 22,943,925</b>	<b>\$ 22,043,567</b>	<b>\$ 21,571,034</b>	<b>\$ 21,235,962</b>	<b>\$ 21,078,168</b>

**Restricted General Fund Balance:** The City has adopted a policy that provides a Minimum Reserve of six months of operating expenditures in reserve to provide for adequate resources in the event of an economic downturn or other events that result in limited or significant reduction in current revenues. The amount set aside for this factor ranges from \$27.8 million in FY 2022-23 to \$32.1 million in FY 2027-28. The City Council has also set aside two other reserves for future reductions in Property Tax Revenues from Mills Act (historic designation) properties. The amount set aside for this purpose is \$500,000. The City Council also provided a reserve of \$4 million to be used for future Capital Projects. The following table portrays these reserves and the amount the total Fund Balance exceeds the reserve requirements, as explained.

**Putting the Results Together:** While a temporary reduction in the General Fund revenue is projected for the next two fiscal years, the City expects to mitigate the impact with stable reserve balances and plans to replenish with additional contributions in the future. As a result, the general outlook remains positive, maintaining a healthy General Fund balance over the next five-year period. The fund balance on June 30, 2027, is projected at \$57.7 million, well above the projected minimum reserve requirement estimated to be \$36.6 million. Ultimately, the growth or decline in fund balance will depend upon actual revenue and expenditure growth. The following line chart shows projected General Fund balances and minimum reserves.



In closing, each year, these projections get a fresh look and take into consideration the most current information available. The projections are intended as a high-level review. This multi-year projection presentation is intended to provide a backdrop and context for the upcoming 2023-24 Budget discussions. Several assumptions are used in these projections. Two guiding principles which are employed throughout these estimates are as follows:

- 1) Operating revenues and expenditures are shown using historical data and projected future trends. Future trends are projected based on current financial conditions and anticipated changes.
- 2) Departmental operations are maintained at the current level, and current revenues are matched with current operational needs before being allocated for other purposes; i.e., new Capital Improvement Program (CIP) projects or Facilities Replacement projects (legacy facilities).

**FISCAL IMPACT:**

There is no fiscal impact associated with accepting this report.

**ALTERNATIVE:**

City Council could choose to direct staff to make adjustments to the FY 2023-24 Budget Calendar, and/or Guiding Principles and Strategies for FY 2023-24.

**CALIFORNIA ENVIRONMENTAL QUALITY ACT:**

Not Applicable

**PUBLIC NOTICE:**

No notice required.



**ATTACHMENTS:**

1. FY 2023-24 Budget Calendar
2. Guiding Budget Principles and Strategies

Submitted By: Administrative Services Department / John Kim